

**EFFECT OF VOLUNTARY ACCOUNTING DISCLOSURES ON INVESTOR  
CONFIDENCE OF NON-FINANCIAL FIRMS LISTED IN NAIROBI  
SECURITIES EXCHANGE**

**By**

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**KCA UNIVERSITY**

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UNIVERSITY**

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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 contains 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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been adequately addressed

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## ABSTRACT

Voluntary accounting disclosures involve provision of information by a company which are beyond the legal requirements. Making voluntary accounting disclosure uses resources and the value gained from these disclosures need to be more than those costs for these disclosures to be justifiable. Moreover, most empirical studies have contrasting findings on the business case of voluntary corporate disclosures. The purpose of this study was to establish the effect of voluntary accounting disclosures on investor confidence of non-financial firms listed in the NSE. The specific objectives of the study were to determine the effect of forward-looking information disclosure, value-added statement disclosure, and human resource accounting information disclosure and social accounting information disclosure on investor confidence of non-financial firms listed in the NSE. The study was based on agency theory, legitimacy theory, stakeholder theory and signalling theory. A causal design was used in this study. The study population is the 47 non-financial firms listed in the NSE. Data from the audited financial statements of the 47 nonfinancial firms listed at the NSE. The panel data collected was analysed using descriptive statistics, exploratory statistics and panel data regression analysis. The study findings indicated that forward-looking information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. The findings further determined that valued added statements disclosure had a significant positive effect on investor confidence of the non-financial firms listed in the NSE. However, human resource accounting information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. Additionally, social accounting information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. This study recommends that all non-financial firms listed in the NSE should critically consider in-depth disclosure of value added information using value added statements as a voluntary disclosure in the process of accounting communication to the stakeholders including investors.

**Key words:** Investor confidence, voluntary accounting disclosure, forward looking, value added social accounting information.

## **DEDICATION**

I dedicate this study to the almighty God, my family members and friends who have been of great moral support throughout my studies. Great honour is indebted onto my research supervisor Dr Ibrahim Tirimba. May God bless him abundantly for his guidance and moral support he accorded me during this study.

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## **ACRONYMS AND ABBREVIATIONS**

CMA	Capital Markets Authority
CMC	Cooper Motor Corporation
FASB	Financial Accounting Standards Board
FTSE	Financial Times Stock Exchange
HRAD	Human Resource Accounting Disclosure
KPMG	Klynveld Peat Marwick Goerdeler
NSE	Nairobi Securities Exchange
POLS	Pooled Ordinary Least Squares
UK	United Kingdom
VAS	Value Added Statement

## OPERATIONAL DEFINITION OF TERMS

**Forward-looking information** - Statements that contain objectives, plans and financial projections for future financial performance or future operations and the underlying assumptions (Al-theebeh, Jodeh, Mahmood & Khaled, 2018).

**Human resource accounting information** – Reports regarding the company’s investments in people that is usually not accounted for by the conventional financial reports (Pepper & Gore, 2015).

**Investor confidence** – The willingness by existing or potential investors to engage in the venturing into the company based on their perception of return and risk (Opanyi, 2019).

**Social accounting information** – Reports that provide measurement, monitoring and revelation of environmental and societal effects of a company’s operations (Hoque & Rakow, 2015).

**Value-added statement** - Financial reports displaying the wealth generated by the company and the distribution of this wealth to the different stakeholders (Asava, 2013).

**Voluntary accounting disclosures** - Provision of reports by a firm which are beyond the legal necessities such as generally accepted accounting principles and other guidelines from local statutory bodies or international regulatory agencies (Hassan, 2018).

# **CHAPTER ONE**

## **INTRODUCTION**

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

Voluntary accounting disclosures involve provision of reports by a firm which are beyond the legal requirements such as generally accepted accounting principles and other guidelines from local statutory bodies or international regulatory agencies (Hassan, 2018). This information is made public by the company to enable stakeholders to make informed decisions. Voluntary accounting disclosures are made by various firms, although the type and extent of voluntary corporate disclosure varies by company size, industry and geographic region (Sahore & Verma, 2017). The scope to which companies engage in voluntary accounting disclosures is also influenced by ownership structure and corporate governance of the firm. Karajeh, Ibrahim and Lode (2015) contend that top leadership in a firm plays a critical role in determining the company's voluntary disclosures. This is because top management's values, career paths, industry experience and personal backgrounds determine the disclosure styles they adopt.

In Malaysia, Khlif et al. (2017) observe that the notion of voluntary accounting disclosures is steadily gaining traction where most of the listed companies are engaging in some form of voluntary accounting disclosures. The increasing prevalence of voluntary accounting disclosure in the country is credited to the enormous globalization of organizations which bring on board a range of foreign and local institutional investors who petition for enhanced extents of corporate governance. Major entities in Malaysia are mostly adopting social and environmental disclosures. Karajeh et al. (2015) postulated that in most of the Malaysian listed companies, their past performance and ownership structure determined that forms and extent of voluntary accounting disclosures adopted.

Bangladesh on the other hand practices a weak system of the Anglo-American corporate governance. The key institutional factors that contribute to the weakness of its corporate governance system are lack of active corporate control, an inactive managerial labour market, a weak-efficient securities market, poor incentive contracts for management and less developed capital market (Dawd & Charfeddine, 2019). Moreover, Bangladesh is plagued by poor-quality law enforcement which severely hampers the potential of the market to grow. As the country lacks a robust market-based control and monitoring mechanisms, ownership-based control and monitoring function is a fundamental governance mechanism. Companies in Bangladesh have poor reporting practices, low levels of voluntary accounting disclosures mechanisms and poor corporate accountability to the society (Guo, Chan, & Xue, 2016).

In India and South Africa, Sahore and Verma (2017) observed that the need for various stakeholders to get insights into how companies are operating has made the two countries to enhance the level of non-financial disclosure. This form of disclosure comprises disclosure relating to top executives and the boards in the listed companies. Sahore and Verma, further observed that India and South Africa are developing countries with similar economic, social and governance challenges including ethics.

In Nigerian, there have been various wide-ranging studies of listed companies in the country that have been sanctioned by the World Bank Group (Enache & Hussainey, 2020). The findings indicate some critical deficiencies in Nigerian financial reporting practices which adversely affects investor confidence. In addition to the surveys commissioned by the World Bank, voluntary disclosure practices by corporate entities in the has been empirically examined by Hassan (2018) where similar observation was established. Despite the codes in corporate

governance in Nigeria, statutory disclosure is a pointer that the state of voluntary disclosure by companies in the country is poor thus affecting, investor confidence and profitability adversely.

In Kenya, the level of voluntary corporate disclosures is affected by the characteristics of the company, ownership structure and the organization's corporate governance attributes (Musyoka, 2017). Voluntary corporate disclosure has been indicated to have an effect on corporate financial performance, firm value and share value (Mutiva, 2015). The study by Mutiva (2015) on the correlation between financial performance and voluntary disclosure of companies quoted at the Nairobi Securities Exchange (NSE) observed that disclosing more information voluntarily increases transparency and accountability and that there was a strong positive association between financial performance measures and voluntary corporate disclosure. Moreover, Opanyi (2019) observe that companies in Kenya are recognizing the importance of voluntary corporate disclosures that meets the needs of the company's numerous stakeholders. The purpose of this type of financial disclosure is to reduce agency conflicts between management and shareholders, provide stakeholders with in-depth information regarding the entity's dealings and reduce information asymmetry. This study will seek to establish the effect of voluntary accounting disclosures on investor confidence of non-financial firms listed in the NSE.

### ***1.1.1 Voluntary Accounting Disclosures***

Voluntary accounting disclosure is when a company's management provides information to the public beyond statutory requirements (Hassanein, Zalata, & Hussainey, 2018) . These statutory or legal requirements may include rules from the Securities and Exchange Commission (SEC) or generally accepted accounting principles (GAAPs). The information disclosed voluntarily by the

company is believed to be relevant for users of accounting information for current and future decision-making regarding the firm (Khlif et al., 2017). There are various factors that determine the extent that a company voluntarily discloses information. These include ownership structure, top management team demographics, backgrounds and experiences, industry practice and the context of the country

The Financial Accounting Standards Board (FSAB) classified voluntary accounting disclosures into six major categories namely: social information, analysis of value created by the business, forward-looking information, information regarding intangible assets like human resources, corporate governance information and company background (Opanyi, 2019). Of the six categories, Al-theebeh, Jodeh, Mahmood and Khaled (2018) argues that four are mostly widespread in different industries namely: forward looking information, report on value addition, corporate social responsibility and information about intangible assets. This study will focus on these four voluntary accounting disclosures and assess how they influence investor confidence in firms' non-financial firms listed in Nairobi Securities Exchange (NSE).

### ***1.1.2 Investor Confidence***

Investor confidence is the willingness of current and potential investors to engage in investing in the company or in other intermediation channels available between them and the firm (Liu et al., 2014). Investor confidence is not only affected by the performance of the firm, but also with how transparent the firm is perceived by its stakeholders. Moreover, investor confidence is influenced by the perceived risk and returns that could emanate from investing in the company. According to Enache and Hussainey (2020), investor confidence is one of the key drivers of investments in

the capital markets. The changing prices of shares and debt instruments indicate the fear or expectations of the investors.

Liu, Hsu and Li (2014) contend that as investors and stakeholders become more enlightened on business, environment and social affairs, they tend to demand more disclosures from companies. The above position is not different from events that have been unfolding in the Kenyan business environment (Mutiva, 2015). More so, the recent global financial crisis has made stakeholders to place more value on voluntary accounting disclosures (Khlif et al., 2017). For instance, firms in France have engaged in a variety of voluntary disclosures on employment practices, corporate social responsibility, environment and strategy (Ajina et al., 2015). However, despite the improvement in extent of voluntary accounting disclosures, Enache and Hussainey (2020) observe that this has marginally enhanced transparency levels involving voluntary disclosure of organization's compensation practices in the late 2000s and early 2010s.

There have been various measures used to assess investor confidence. These measures assess change in investor sentiment regarding a certain equity or security. One uses the spread in securities (Krisdayanti & Wibowo, 2019). When spread is narrowing, it shows investor confidence is increasing and when the spread is widening, it shows investor confidence is reducing. The other is the State Street Investor Confidence Index which is a quantitative assessment of risk appetite or investor confidence (Sahore & Verma, 2017). It measures investor confidence by analyzing the actual selling and buying patterns of institutional investors. This measure will be applied in this study.

### ***1.1.3 Non Financial Firms Listed at NSE***

The history of Nairobi Securities Exchange (NSE) dates back to 1954 when it was registered as a voluntary association of stockbrokers under the Societies Act (1954) . its mandate was to

regularize the stock trading activities and develop the securities market. At its inception, process were determined by negotiation and business transacted through telephone. It had a total of 66 public sector securities that were quoted for the entire east Africa region. It has undergone various developments including automation and listing. The NSE has a total of 62 listed firms of which 47 are non-financial firms. This study focused on the non-financial firms as they are not closely regulated like the financial firms which has led to various scandals in these firms.

The non-financial firms belongs to sectors such as agriculture, investment services, manufacturing and allied, telecommunications and technology and real estate investment trusts. Other sectors include automobiles and accessories, investment, commercial services, construction and allied and energy and petroleum. Key firms in the non-financial sector such as Kenya Airways, Mumias Sugar, Uchumi Supermarkets, Bamburi Cement, East African Portland cement and CMC holdings among others have been experience major downward trends in their stocks which indicates decreasing investor confidence (Opanyi, 2019). This study will focus on this sector to assess whether these changes in investor confidence are associated with voluntary accounting disclosures.

## **1.2 Statement of the Problem**

Voluntary corporate disclosures are a key way through which the stakeholders of the organization can get information regarding the firm's performance on areas that the firm is not mandated by law to report on (Smith, 2012). Voluntary corporate governance disclosure is an essential mechanism of the today's corporate-regulatory system, which incorporates provision of governance information to stakeholders in diverse ways. Voluntary corporate disclosures entail costs, yet most investors and stakeholders require firms to make better and higher quality

voluntary disclosures (Hoque & Rakow, 2015). Moreover, most empirical studies have contrasting findings on the business case of voluntary corporate disclosures. In some studies, for instance (Shruti, 2014), voluntary corporate disclosure is established to have no significant influence on corporate financial performance whereas in others (for instance Deutsche Asset Management and the University of Hamburg, 2015) establish a positive relation between voluntary corporate disclosure and corporate financial performance.

In Kenya, there has been numerous corporate malpractices and scandals some of which have led to near collapse of listed firms like Kenya Airways, Mumias Sugar, Uchumi Supermarkets, Bamburi Cement, East African Portland cement, CMC holdings among others. On the Uchumi Supermarkets case, an audit by KPMG (2014) determined that the management of the company withheld important information regarding the company's financial performance and position to its shareholders. As a result, the shareholders remained unaware of the financial difficulties the firm was experiencing and continued to invest into the company. The management of a firm has in-depth information about the financial health of the firm that its shareholders, since they engage in the day to day running of the firm. The management therefore, need to regularly communicate to shareholders to reduce this information asymmetry. If this communication is done effectively, it could enhance the value of the firm by reducing the agency costs (Schuster and O'Connell, 2016). Though there are regulations that stipulate the statutory financial statement disclosures that listed companies should adhere to, these are not adequate to provide the required information and hence build investor confidence. Therefore, as Waweru (2018) posits, the organization's management should go beyond the statutory disclosures and voluntarily disclose all the material information that stakeholders need to make informed decisions regarding their relationships with the firm.

The area on voluntary disclosure and investor confidence remains grey. Oyenje (2012) investigated the correlation between voluntary accounting disclosures on performance of construction, manufacturing and allied sectors listed on the NSE. Munyao (2012) examined the influence of voluntary accounting disclosures on forex bureaus' financial performance in Kenya. Lopokoiyit (2012) investigated the influence of voluntary corporate disclosures on the price of shares of companies listed at the NSE. Moreover, Asava (2013) examined the effect of voluntary disclosures on the stock returns of companies listed at the NSE. These studies concentrated on the effect of voluntary disclosures on financial performance and stock prices and thereby leaving the area on voluntary disclosure and investor confidence grey and hence the need for this study. Also, these studies had concentrated on listed firms as a whole and some on the manufacturing and allied section of listed firms, thereby omitting the perspective of listed non-financial firms in Kenya. This study therefore aimed to clear the air and fill the gap regarding the effect of voluntary accounting disclosures on investor confidence among listed non-financial firms at NSE.

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

#### **1.3.1 General Objective**

The general objective of the study was to establish the effect of voluntary accounting disclosures on investor confidence of non-financial firms listed in the NSE

#### **1.3.2 Specific Objectives**

- i) To establish the effect of forward-looking information disclosure on investor confidence of non-financial firms listed in the NSE

- ii) To determine the effect of value-added statement disclosure on investor confidence of non-financial firms listed in the NSE
- iii) To establish the effect of human resource accounting information disclosure on investor confidence of non-financial firms listed in the NSE
- iv) To assess the effect of social accounting information disclosure on investor confidence of non-financial firms listed in the NSE

#### **1.4 Research Questions**

- i) What is the effect of forward-looking information disclosure on investor confidence of non-financial firms listed in the NSE?
- ii) To what extent does value-added statement disclosure affect investor confidence of non-financial firms listed in the NSE?
- iii) How does human resource accounting information disclosure affect investor confidence of non-financial firms listed in the NSE?
- iv) What is the effect of social accounting information disclosure on investor confidence of non-financial firms listed in the NSE?

#### **1.5 Significance of the Study**

There have been numerous corporate malpractices and scandals some of which have led to near collapse of listed firms like Kenya Airways, Mumias Sugar, Uchumi Supermarkets, National Bank and CMC holdings among others. On the Uchumi Supermarkets case, it was determined that the management of the company withheld important information regarding the company's financial performance and position to its shareholders. As a result, the shareholders remained

unaware of the financial difficulties the firm was experiencing and continued to invest into the company. The management of a firm has in-depth information about the financial health of the firm that its shareholders, since they engage in the day to day running of the firm. The management therefore, need to regularly communicate to shareholders to reduce this information asymmetry. If this communication is done effectively, it could enhance the value of the firm by reducing the agency costs. Though there are regulations that stipulate the statutory financial statement disclosures that listed companies should adhere to, these are not adequate to provide the required information and hence build investor confidence. This study is hence aimed at establishing the importance of voluntary corporate disclosures on investor confidence so that it can inform improvements and practice in the non-financial firms listed in the NSE.

The study could be of great value to the following. To non-financial firms listed in the NSE, the findings of the study will inform the management on how voluntary corporate disclosures influence investor confidence and hence provide insights into the corporate disclosures that they have to focus on if they are to improve the confidence of the current and potential investors.

The firm being a legal entity which exists within the community is expected to adhere to the values and norms of the community in its dealings and operations. Therefore, the findings of this study will inform stakeholders including the public, media and the business community about the voluntary corporate disclosures of the non-financial firms listed in the NSE. These stakeholders uses this information to make informed decisions when they are dealing with these firms and for stakeholders who advocate for voluntary disclosures, the findings would inform them on the levels to which voluntary accounting disclosures are embedded in the non-financial firms listed in the NSE and hence inform their future advocacy.

The study findings are of value to regulators such as NSE and Capital Markets Authority (CMA) to enable them formulate policy frameworks by providing policy gaps in existence and enhancing regulation on corporate disclosures. The findings from this study provides deeper insight into voluntary accounting disclosures by non-financial firms listed in the NSE which will inform policy by the authorities.

The study on how voluntary accounting disclosures affect investor confidence is relevant to investors as this influences the value of their investment. This study provides results that will establish how voluntary accounting disclosures influence investor confidence which investors can use to drive their agenda through forums such as annual general meetings. The study results can also assist investors in making informed decisions about the firms to invest in.

Moreover, the study results are important to academicians who include students, scholars and researchers. Scholars can use the study results in their teaching and academic work while researchers can use the limitations that this study will have to improve on future research. Moreover, the study provides suggestions for further research which can be explored by researchers in the future.

## **1.6 Scope of the Study**

This study was conducted on 47 non-financial firms listed on the NSE. Secondary data collected from the audited financial statements of the companies for five years (2015 – 2019) was used. The study applied five-year period to include the most current data, coincide with the business cycle and also indicate the trend in a wider span. Moreover, most strategic plans of firms are designed on spans of five years. The listed firms were selected since their voluntary disclosures are available publicly and are verifiable. Though there are many aspects of voluntary accounting

disclosures, the study focussed on forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure and social accounting information disclosure.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature review relevant to the study on the effect of voluntary accounting disclosures on investor confidence is provided in this chapter. Included in the chapter is the theoretical framework that discusses the theories that anchor this study and the empirical review which evaluates past studies on voluntary accounting disclosures and their effect on the firm. The chapter also presents the study gaps that the current study sought to fill, and the conceptual framework which provides the hypothesized relationship amongst the study variables. Lastly, the study provides the operationalization and measurement of the study variables.

#### **2.2 Theoretical Review**

The theories that form the theoretical framework that anchors the study are provided in this section. The four theories used in the study are the agency theory, legitimacy theory, stakeholder theory and signalling theory. The years these theories were developed, the scholars who developed them and the propositions of these theories are provided. Moreover, the criticisms to the theories and the applicability of the theories to the study are also discussed.

##### ***2.2.1 Agency Theory***

Agency theory was developed by Jensen and Meckling (1976) but it originated from the seminal work of Berle and Means (1932). This theory defines agency relationship as a situation where one party (agent) is contracted by another (principal) to accomplish a task or conduct some services on their behalf. To enable the agent conduct the task effectively, the principal must

delegate authority of decision making to the agent (Eke, 2018). The theory's fundamental foundation is that those people tasked with representing others should wholesomely pledge the corporate resources to maximization of the value of their principals and thereby reducing the agency problem. The theory indicates that due to the information asymmetry that exists between principals (shareholders) and agents (managers), measures must be taken to address this asymmetry (Sahore & Verma, 2017). This could be through monitoring (mostly through board of directors), placing restrictions on management and performance-based remuneration or requiring full transparency (A. Hassanein et al., 2018). Voluntary accounting disclosure is an aspect of transparency.

The agency theory has been applied in many studies on voluntary accounting disclosures. These include studies such as Ajina et al. (2015), Guo et al. (2016) and Al-theebah et al. (2018). However, this theory is criticized by scholars such as Bergen, Dutta and Walker (1992), Ozer and Alakent, 2013) and Pepper and Gore (2015) because of concentrating too much on the agent side of the relationship and ignoring the principal side. This is despite the fact that problems could also arise from the principal side. The agency theory is also criticized by indicating that an agent will most often act selfishly in contrast to the interests of the principal. Scholars such as Khlif et al. (2017) and Opanyi (2019) opine that most agents will mostly cooperate and act on the best interests of their principals.

This theory was used in this study to explain how voluntary accounting disclosures are applied to bridge the information asymmetry between shareholders and management by disclosing value-added statements for enhanced investor confidence. When there is information asymmetry between agents and shareholders, the agents (managers) could seek to voluntarily disclose value added information to the stakeholders which is expected to enhance confidence

amongst the various constituents. However, the organizations that do not disclose the value-added information to stakeholders is expected to be perceived as secretive and hence motivate little confidence amongst the investors.

### ***2.2.2 Stakeholder Theory***

The development of stakeholder theory is attributed to Freeman (1984). The stakeholder theory is a management, business and organizational theory that addresses moral values in the management of an organization and how the organization relates with its key stakeholders. The theory relates to the contracts between entities comprising contracts in the market economy, corporate social responsibility and social contracts. Within a corporate entity, stakeholders are the entities or persons who influence or are influenced by the policies, decisions and actions of the company (Freeman, 1984). Therefore, the top management in the entity is obligated to involve stakeholders in decision making in the organization and strike a balance between the interests of the organization's stakeholders and the management.

Stakeholder theory has been applied in various studies on relating voluntary accounting disclosure to firm value, financial profitability and share value (Enache & Hussainey, 2020; Hassanein, 2015; Esfesalari & Zarei, 2013). However, despite its vast application in empirical research, stakeholder theory is criticized by various scholars such as Key (1999) and Pesqueux and Damak-Ayadi (2005) because of lack of specificity, and hence challenging to operationalize it for scientific investigation. Moreover, Yim, Bae, Lim and Kwon (2019) criticizes the theory for being too vacuous and thus offering an unrealistic view of the operations of organizations.

The stakeholder theory was used in this study to establish how organizations can use human resource accounting information disclosure to inform stakeholders how it plans and

accounts for its key resource (human resource) to enhance investor confidence. Stakeholder theory indicates that disclosure of practices and information is the minimum acceptable form of accountability to stakeholders to enable them makes decisions regarding their relationships with the firm. One of the key stakeholders of the firm is the human resource and disclosing information about the company's investments in human resource can enable the firm to have a good reputation and relationship with both current and potential investors.

### ***2.2.3 Signalling Theory***

The signalling theory by Ross (1977) proposes that when two parties in a contract have access to different information, one party must find mechanisms to communicate (or signal) that information to the other party for either party to have confidence or to trust each other. The fundamental concern of the signalling theory is to reduce information asymmetry between parties in the organization or in contracts (Connelly et al., 2011). Signalling theory has been largely applied in corporate governance research by indicating how management disclose unobservable qualities of their companies to signal to existing and potential investors on the firm's future prospects (Connelly et al., 2011). When a firm has valuable information that it seeks to relay to stakeholders for various information, it must find a mechanism to disclose this information so that investors can make informed decisions regarding investing in the firm.

The signalling theory has been applied in various studies on dividend decisions, corporate governance and corporate voluntary disclosures and their effect on the different aspects of the firm such as corporate financial performance, reputation, value and sustainability (Dawd & Charfeddine, 2019; Wambugu, Essajee, & Wambugu, 2016; Connelly et al., 2011). The theory has however, faced criticisms since it assumes that the receivers of the information will interpret

the information the way the sender intended (Connelly et al., 2011). Moreover, the theory assumes that the signals provided by the sender are legitimate and the sender is genuinely seeking to provide objective information, which may not always be the case (Ehrhart & Ziegert, 2005).

This theory was applied in this study to inform how disclosure of forward-looking information is expected to communicate about the future prospects of the firm to enable current and prospective investors to gain confidence regarding the future outlook of the company. The forward-looking information is aimed at providing guidance to investors so that they can make evidence-based investment decisions. This enables them to have confidence on their ability to interpret the information and make credible decisions. However, failure to disclose forward looking information will make investors to view the firm as risky and hence lower their confidence in relation to the firm.

#### ***2.2.4 Legitimacy Theory***

Legitimacy theory by Dowling and Pfeffer (1975) proposes that organizations can establish and implement voluntary disclosures to gain legitimacy amongst its shareholders and other key stakeholders. The company can implement voluntary social disclosures to enable them fulfil their social contracts towards shareholders and other publics (Lawrence, 2003). Legitimacy theory hence provides the purpose of voluntary disclosures to establish its values towards the community and the environment. According to Ashforth and Gibbs (1990), organizations go beyond the legal aspects of disclosure to create a reputation as a caring entity and a legitimate member of the community. This has the effect of enhancing confidence in stakeholders.

Legitimacy theory has been one of the mostly applied theories associating voluntary corporate disclosure and corporate social responsibility to organizational outcomes (Burlea & Adriana, 2013). Legitimacy theory has however, been faced some criticism because of its abstract nature and hence making it challenging to establish the mechanisms which makes organizations to be motivated to have voluntary environmental and social disclosures (Schiopoiu Burlea & Popa, 2013; McDermott & Elmaalul, 2017). The theory also fails to consider that some of the information disclosed by the firm could be unreliable and only aimed at enticing investors.

The legitimacy theory was applied in this study to explain why organizations are motivated to disclose their social activities as a way to gain legitimacy in the society and make stakeholders have confidence in the organization. Organizations that disclose their social and environmental activities are seen to be legitimate and trustworthy by investors (Burlea & Adriana, 2013). Conversely, organizations that fail to disclose their social activities are perceived to be secretive or to be involved in illegitimate activities. This creates a situation of mistrust in the perspective of the potential and current investors towards such an organization.

### **2.3 Empirical Review**

The review of empirical studies extant to the study on the effect of voluntary accounting disclosures on investor confidence are presented in this section. The studies conducted in different contexts including local, regional and global contexts are presented in subsections according to the study objectives. Moreover, the gaps that are identified in these past studies are presented.

### ***2.3.1 Effect of Forward-Looking Information Disclosure on Investor Confidence***

Hassanein, Zalata, and Hussainey, (2019) research investigated the impact of forward looking disclosures on the value of non-financial firms in UK FTSE. The study focused on secondary sources from annual reports of 2785 firms. From the findings, forward looking information disclosure positively influences the investors' valuation of low and high performing firms. Through the results, it is conclusive to state that forward looking information disclosure has a linear relationship with investors' confidence. A study by Waweru (2018) examined the impact of voluntary accounting disclosure on the market performance of non-financial firms listed in the NSE. The research incorporated 45 firms as the respondents and used secondary data from annual reports to derive the results. From the study forward looking information disclosure is significantly related to market performance. The literature supports the argument by Hassanein, Zalata, and Hussainey, (2019) that forward-looking information disclosure as a form of voluntary disclosure enhances investors' confidence.

Bravo (2016) research investigated the corporate reputation and forward-looking disclosure as a mechanism to limit stock return volatility. The study incorporated institutions selected from listed firms in Standard and Poor's 100. The independent variables included forward looking information disclosure and corporate reputation while the dependent variable was stock return volatility. From the research, forward looking information disclosure has a significant impact on the capital market thus influences investor confidence. A corresponding study by Bozzolan, Trombetta, and Beretta (2009) examined the relationship between forward looking disclosures and financial verifiability among cross listed European firms. According to the researchers, forward looking disclosures is an important source of information when assessing the value of a company. The study findings show that verifiable disclosures have an

effect on improving accuracy and reducing dispersion of analyst forecast. Literature affirms that forward looking information disclosure has a significant impact on investor confidence since it is an essential source of valuing companies.

Musyoka's (2017) study investigated the impact of voluntary disclosure on the financial performance of firms listed at Nairobi Security Exchanges. According to the author, forward looking information disclosure is important in enhancing the firms' future financial performance. A research by Agyei-Mensah (2017) investigated the relationship between corruption, governance and forward-looking information disclosure of listed firms in Ghana and Botswana. The study incorporated 174 firms and obtained data from secondary sources. The findings of the research show that the transparency level of companies critical in enhancing performance thus a vital element of influencing investors' confidence. Agyei-Mensah (2017) amplify the concept by Musyoka (2017) that forward-looking information disclosure improves the future financial performance and reduces unethical conducts. A more recent research by Waweru (2018) affirms that forward looking information disclosure plays a significant role in promoting market performance.

Waweru, Memba, and Njeru (2016) envisaged to establish the relationship between forward looking information disclosure and the financial performance of non-financial firms listed in the Nairobi Securities Exchange. The descriptive cross-sectional study incorporated 45 non-financial companies and utilized secondary panel data and primary survey to derive the findings. Structure questionnaire was administered to 45 chief executive officers. The results reveal a linear relationship between forward looking information disclosure and the companies' financial performance. Based on the results, forward looking information disclosure has an influence on investor confidence. According to Mousa and Elamir (2018) forward looking

information is the type of information that relates to future forecast and plans that enable different users to assess the future corporate performance. The research by Mousa and Elamir (2018) focused on 34 listed firms in the Bahrain Bourse from 2014 to 2017. The study findings show that forward looking information disclosure have a significant relationship with stock return volatility.

Mwangi and Mwiti (2015) posits that voluntary disclosure of information within firms enhances the investors' self-assurance. The research examined the relationship between voluntary disclosure of accounting information and financial performance of listed companies in the NSE. The descriptive study involved 66 listed companies in NSE. From the study, independent variables included forward looking disclosures, voluntary financial information, social environmental and board information, and general corporate and strategic information. The study findings show that forward looking information disclosure lead to increased financial performance thus enhancing investor confidence. A corresponding study by Chen, Tan, and Gong (2013) examined the impact of voluntary disclosure on the firm value. According to the authors, voluntary disclosure of information is critical in promoting the value. Institutions adopt the approach to increase the investors' self-assurance on stock returns. Forward looking information disclosure is a form of voluntary disclosure which enhances investors' confidence on firms' future abilities.

Ng'ang'a (2013) examined the impact of voluntary disclosure by institutions listed in the NSE. The research used a descriptive analysis to assess the information obtained through secondary and primary sources. A regression analysis was used to establish how the level of disclosure influences the level of investors' confidence. The findings of the study show that voluntary disclosure which includes forward looking information disclosure has no significant

impact on investors confidence. However, Ng'ang'a (2013) recommended the need for constant increase in accurate information disclosure to give investors surety for their investments. Wambugu and Essajee (2016) investigated the impact of voluntary disclosure of information on the stock returns of listed firms in the NSE. According to the findings forward looking information disclosure does not have a significant effect on boosts stocks returns, though it is considered to be vital element for investors' confidence.

### ***2.3.2 Effect of Value-Added Statement Disclosure on Investor Confidence***

Ianniello (2010) examined the theoretical issues regarding the disclosure of value-added statement as a voluntary disclosure process of accounting communication. The study involved 211 published financial statements from Italian listed companies. From the research findings, disclosure of value-added statement is a critical source of information for investors. Mutiva (2015) investigated the relationship between voluntary disclosure of information and financial performance of firms listed in the NSE. A checklist of 49 voluntary disclosure items was used a regression analysis method used to assess the findings. Value added statement (VAS) disclosure was categorized among the voluntary disclosure. From the findings, Mutiva (2015) shows that VAS has a significant relationship to financial performance of listed firms. It is conclusive to note that high level of VAS influences the investors' confidence.

Waweru (2018) examined the impact of value-added statement disclosure on the market performance of non-financial firms listed in the NSE. According to the author, there is a positive effect of the variable on the firms' performance thus critical in determining investors' confidence. A study by Blessing and Onoja (2015) investigated the role of financial statements on the investment decision making through a case of United Bank of Africa in Nigeria. From the research, value added statements are additional sources of information for the investors.

According to Opanyi, (2019) value added statement disclosure is a source of information used to make investment decisions. From the critical review, disclosure is not an essential driver of firms' value but plays a major role in enhancing investors' confidence. Opanyi (2019) argument supports Waweru (2018) concept that exemplifies the role of voluntary disclosure of value-added statement in increasing investors' confidence.

Mutiva (2015) posits that investors are interested in information about the value-added statements due to its importance in making financial decisions. The author notices a significant relationship between the level of disclosure and the extent of investors' confidence. Kimeu (2019) examined the impact of board characteristics on the voluntary disclosure of information among manufacturing firms listed in NSE. The author posits that economic value-added statement disclosure has a major role in enhancing stakeholders' confidence. This concept is exemplified by Ianniello (2010) findings that reveal the significant relationship between values added statement disclosure and level of investors' self-assurance. Akhtaruddin, Hossain, Hossain, and Yao (2009) investigate the relationship between voluntary disclosure and corporate governance among listed firms in Malaysia. The findings show that disclosure of value-added statement enhances firms stock performance thus increasing investors' confidence.

### ***2.3.3 Effect of Human Resource Accounting Disclosure (HRAD) on Investor Confidence***

Anifowose, Rashid, and Annuar (2017) investigated the possible determinants of human capital disclosure within listed firms in Nigeria. The results of this study were founded on 442 observations of the listed firms. A longitudinal data analysis method was used to derive the link between HRAD and determining factors. From the research, investors utilize disclosure of

human resource accounting information in making investment decisions. A comparative study by Avazzadehfath and Raiashekar (2011) examined the process of making decisions based on HRAD within institutions. From the findings, HRAD in companies' financial statement is relevant and influences optimal investment decisions. This concept has been supported by Muya (1999) study that reveals a linear relationship between HRAD and the level of investor's confidence. The literature shows that investor confidence is enhanced by voluntary disclosure of information.

Akintoye, Awoniyi, Jayeoba, and Moses Ifayemi (2016) assessed the impact of adopting advanced HRAD disclosure among Nigerian banks. The study incorporated 11 financial institutions and obtained financial statements between 2009 and 2013. According to the research findings, enhancing the standards is essential for improving reporting practices. A more recent study by Sarkar, Alam, and Ali (2016) examined human resource accounting disclosure practices within Bangladesh. The study used secondary data from the listed firms in Bangladesh. From the findings, only 27% of the institution's practices HRAD. A corresponding study by Edom, Inah, and ES (2015) examined the influence of HRAD on the profitability of Access Bank in Nigeria. The author exemplifies that voluntary disclosure of HRA is critical in enhancing accountability and stakeholders' confidence. The concept of accounting and disclosure of human resources is founded on the need to enhance future performance and sustainability in business.

Akintoye (2012) posits that HRAD involves disclosure of accounting related to human asset within organizations. The author examined the relevance of HRA in enhancing financial reporting. From the findings, HRA is critical in promoting the quality of financial reporting. A corresponding study by Shreelatha, Sinha, and Sambargi, (2018) investigated the impact of disclosing human resource accounting on the stock investment decision. According to the

researchers, the reports have essential information used for making investment decisions. From the findings, disclosure of human resource accounting plays a significant role in enhancing investors' self-assurance on the future business performance. Shreelatha, Sinha, and Sambargi, (2018) supports Akintoye (2012) argument that HRAD ensures transparency and promotes stock investment decisions. It is therefore conclusive that voluntary disclosure of human resource accounting is positively related to investors' confidence.

Waweru (2018) examined the impact of Human Resource Accounting Information Disclosure on the market performance of non-financial firms listed in the NSE. According to the author, there is a positive effect of the variable on the firms' performance thus critical in determining investors' confidence. A corresponding study by Muya (1999) investigated human resource accounting disclosure among firms listed in the NSE. The research incorporated 49 companies where the researcher obtained annual reports as a source of data. From the findings, different firms have differing approaches of human resource accounting disclosure. The major information in the statements was employees' contribution which had a positive influence on stakeholders' confidence. This finding resonates with Waweru (2018) argument that HRAD is critical in improving the investors' confidence and assurance of future firms' performance. Being an important element, institutions are recommended to enhance their voluntary corporate disclosure to enhance investors' confidence.

#### ***2.3.4 Effect of Social Accounting Information Disclosure on Investor Confidence***

García-Sánchez and Martínez-Ferrero (2018) noted that disclosure of social accounting information relating to corporate social responsibility is linked to firm transparency and sustainability. According to the authors, it enhances assurance that has a major role in promoting

investors' confidence. Wang, Shen, and Yang (2020) examined the relationship between disclosures of environmental information on the firms' investments among Chinese listed companies. The study incorporated 2822 organizations under the area of research. The findings of the study show that the chances of issuing environmental annual reports have a positive relationship with investment efficiency. According to Wang, Shen, and Yang (2020) voluntary disclosure of social accounting information enhances transparency thus increasing the investors' confidence in relation to future performance. This finding is exemplified by a corresponding study by García-Sánchez and Martínez-Ferrero (2018) that posit that social accounting information disclosure plays a significant role in improving stakeholders' confidence.

Barakat, Pérez, and Ariza (2015) examined the determinants for corporate social responsibility disclosure among listed firms in Jordan and Palestine. A sample population of 101 companies selected randomly from the areas under study was used. The findings of this research show that there is a significant relationship between social information disclosure and corporate governance. Barakat, Pérez, and Ariza (2015) argued that voluntary disclosure plays a vital role in enhancing firms' performance and stakeholders' confidence. The results are supported by a study by Wasara and Ganda (2019) study that investigated the relationship between corporate sustainability disclosure and the firms' financial performance among listed mining companies in Johannesburg stock exchange. A sample population of 10 institutions was incorporated and a multi-regression analysis used to examine the link. From the study findings, it is evident that social disclosure positively influences return on investment thus affecting investors' confidence.

A cross-national study by Smith, Adhikari, Tondkar, and Andrews (2010) investigated the impact of corporate social disclosure on the investment behavior within firms. From the findings, voluntary disclosure of social and environmental information influences the investors'

decision-making process. According to Van der Laan Smith, Adhikari, Tondkar, & Andrews (2010) corporate social disclosure impacts the investors' reactions. A similar argument is exemplified by Waweru (2018) research that examined the impact of Accounting Information Disclosure on the market performance of non-financial firms listed in the NSE. According to the author, there is increase investors' and stakeholders' confidence among firms disclosing the social accounting information. both Waweru (2018) and Van der Laan Smith, Adhikari, Tondkar, & Andrews (2010) argument coincide and agree that social accounting disclosure plays a major role in enhancing future performance.

According to Ng'ang'a (2016) voluntary disclosure of information is a major factor influencing investors' confidence among firms listed in the NSE. A corresponding study by Kalunda (2007) investigated the corporate social reporting practices among firms listed in NSE. The research incorporated a sample population of 42 companies active in the NSE within the year 2006. From the findings, most institutions engage in reporting corporate social responsibilities. The practice focuses on improving the investors' confidence on managerial transparency and competence. Barako (2007) supports the findings by stating that voluntary disclosure of information in financial reports is a critical part of building investors' confidence. The prevalence of disclosing social accounting information is critical in improving performance since it makes provision for informed decisions relating to investments. Ng'ang'a (2007) and Kalunda (2007) agree that corporate social information disclosure is a process of improving investor confidence.

## **2.4 Knowledge Gaps**

The review of studies relevant to the research on the effect of voluntary accounting disclosures on investor confidence revealed some gaps which the current sought to bridge. First, studies such as Ng'ang'a (2013), Waweru et al. (2016) and Akintoye et al. (2016) applied ordinary least squares regression on panel data and hence the findings from these studies could not be reliable enough to provide evidence on the effect of voluntary accounting disclosures on investor confidence. The current study will apply panel data regression model which is more robust in analyzing panel data.

Most of the studies reviewed were conducted in other countries which have critical differences with the operating, economic and regulatory environments in Kenya. These studies include Wang et al. (2020) in China, Wasara and Ganda (2019) in South Africa, Anifowose et al. (2017) in Nigeria and Barakat et al. (2015) in the Middle East among others. The findings from these studies may not be generalizable to Kenya which justifies the current study.

The reviewed studies also left some conceptual gaps. For instance, Hassanein et al. (2019) investigated the influence of forward-looking disclosures on the value of non-financial firms in UK FTSE but left out value added information, social accounting and human resource accounting disclosure. Moreover, the study by Waweru (2018) only focused on human resource accounting disclosure and social accounting disclosure but left out value-added information disclosure and forward-looking information disclosure. Moreover, Mutiva (2015) focused on value added information disclosure and social accounting disclosure but did not consider human resource accounting disclosure and forward-looking information disclosure. Evidence is required on how forward-looking information disclosure, value added information disclosure, human

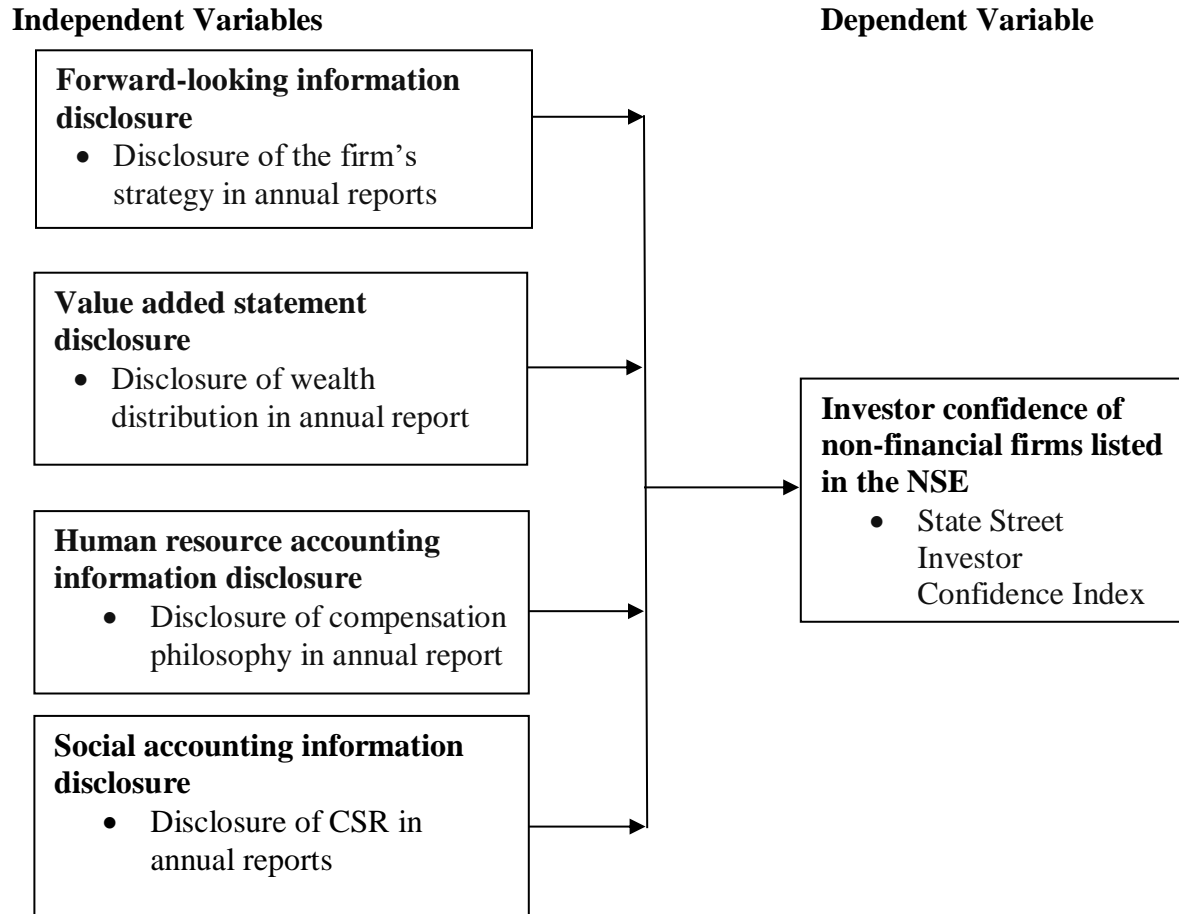
resource accounting disclosure and social accounting disclosure interlink to influence investor confidence. This justified the current study.

## **2.5 Conceptual Framework**

The conceptual framework that guides the study is presented in Figure 1. The dependent variable in the framework is investor confidence of non-financial firms listed in the NSE. The independent variables are forward-looking information disclosure, value added statement disclosure, human resource accounting information disclosure and social accounting information disclosure.

**Figure 1**

**Conceptual Framework**



*Source: Author (2020).*

**2.6 Operationalization of Variables**

An operational or operationalization framework is a table or figure that provides the definition, indicators and measurement of the study variables. According to Easterby-Smith, Thorpe, Jackson and Lowe (2018), operationalization is essential as it enables the researcher to define all the study variables and show how they are measured. The key purpose of the operationalization

is to define the vague concepts and indicate clearly the quantitative and empirical measures.

Table 1 presents the study's operationalization framework.

**Table 1**  
**Operationalization Framework**

Variable	Measurement	Formulae
Forward-looking information disclosure	<ul style="list-style-type: none"> <li>• Reports on long term business objectives</li> <li>• Disclosure on strategies</li> <li>• Projections of financial matters</li> <li>• Assumptions underlying forward looking information</li> </ul>	1 = Disclosed 0 = Not disclosed
Value added statement disclosure	<ul style="list-style-type: none"> <li>• Statement of value created</li> <li>• Report on distribution of wealth created by the firm</li> <li>• Report on value retained by the firm</li> </ul>	1 = Disclosed 0 = Not disclosed
Human resource accounting information disclosure	<ul style="list-style-type: none"> <li>• Reporting on compensation philosophy</li> <li>• Information on number of employees</li> <li>• Information on directors' remuneration</li> <li>• Information on trainings</li> <li>• Information on human resource development initiatives</li> </ul>	1 = Disclosed 0 = Not disclosed
Social accounting information disclosure	<ul style="list-style-type: none"> <li>• Corporate social responsibility reporting</li> <li>• Involvement in environmental initiatives</li> <li>• Report on sustainability practices</li> <li>• Statement on customer concerns</li> </ul>	1 = Disclosed 0 = Not disclosed
Investor confidence	<ul style="list-style-type: none"> <li>• State Street Investor confidence Index</li> </ul>	Change in shares owned by institutional investors

*Source: Author (2020).*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The research methodology that was used in conducting this study is presented in this chapter. The chapter includes the research design adopted, the population targeted in the study and the sample and sampling technique. Besides, the chapter provides the instrumentation and the data collection techniques. Further, the data analysis process and the empirical model that were applied in the study are presented in the chapter. Lastly, the diagnostic tests that were conducted are explained and discussed.

#### **3.2 Research Design**

A descriptive research design was used in this study. This is the type of design that seeks to describe the phenomenon under investigation and also provide a relationship that exists between study variables (independent and dependent variables). Descriptive research design can also be used to assess the association between an independent variable or a set of independent variables and a dependent variable (Guo, 2015). This study design was appropriate for this study as the study sought to understand voluntary accounting disclosures amongst non-financial firms and relate these to investor confidence. Moreover, Saunders, Lewis and Thornhill (2015) observe that descriptive studies seek to evaluate the relationship of a certain variable with another after an event has already occurred. This is suitable for this study since past data on voluntary disclosures and investor confidence was used.

### **3.3 Target Population**

The study population was 47 non-financial firms listed in the NSE (NSE, 2020). The study focussed on the non-financial firms listed in the NSE due to the poor performance, bailouts and suspensions that have been experienced by key non-financial firms listed in the NSE in the years immediately preceding the year the study was conducted. The 47 non-financial firms listed in the NSE are provided in Appendix II.

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

There was no sampling applied in the study. The study was hence a census. All the non-financial firms listed in the NSE were included in the study. According to Zikmund, Babin, Carr and Griffin (2013), sampling should not be applied when the population of study is small and accessible. The 47 non-financial firms listed in the NSE were few (less than 100) and easily accessible.

### **3.5 Instrumentation**

The study collected secondary data on voluntary accounting disclosures and investor confidence from all the 47 non-financial firms listed in the NSE. This information was collected from the audited financial statements of the 47 non-financial firms listed in the NSE and captured in a secondary data collection sheet (Appendix I). According to Sharp, Peters and Howard (2017), a data collection sheet is essential for collecting and capturing secondary data before it is input into a statistical software.

### **3.6 Data collection Procedure**

The study sought data from the audited financial statements of the 47 nonfinancial firms listed at the NSE. Data for five years (2015 – 2019) was sought. The study utilized the websites of the firms to extract the audited financial statements. For those firms that had not posted their financial statements on their websites, the financial statements were sought from their offices. This information was then captured in the data collection sheet and filed. After all the data from all the companies for all the five years was collected, it was checked for completeness and edited to ensure it had no errors or to ensure that there were no missing variables. It was then entered into Stata statistical software.

### **3.7 Data Analysis and Presentation**

The panel data collected was analysed using descriptive statistics, exploratory statistics and panel data regression analysis. Descriptive statistics were used to establish the central tendency and dispersion of the study variables for all the nonfinancial firms listed in the NSE. The exploratory analysis was essential to indicate the trends and the differences between the different firms. The panel data regression was used to assess the influence of the four independent variables (Forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure and social accounting information disclosure) on the dependent variable (investor confidence). Three panel data regression models could have been applicable in the study these include fixed effects model, random effects model or pooled ordinary least squares regression (POLS).

To determine which of the three models was appropriate for the study, a Hausman test was conducted to select either the fixed effects model or the random effects model. The study then conducted a Breusch-Pagan Lagrange multiplier test which enabled selection between the

random effects model and the POLS. The study used Stata statistical package version 15 which was used to generate the selected regression model. The model applied was;

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it} \dots\dots\dots (i)$$

Where;  $Y_{it}$  = Investor confidence for  $i^{\text{th}}$  firm in  $t^{\text{th}}$  year.

$X_1$  = Forward-looking information disclosure

$X_2$  = Value-added statement disclosure

$X_3$  = Human resource accounting information disclosure

$X_4$  = Social accounting information disclosure

$\beta$  = Independent variable coefficients,

$\alpha$  = the intercept

$i = 1, 2 \dots 48$  (number of firms) and

$t = 1, 2 \dots 5$  (time indicator)

$\varepsilon_{it}$  = error term

### 3.8 Diagnostic Tests

The study applied diagnostic tests to examine whether the data collected violated the regression assumptions. The tests that were conducted included test for normality of residuals (Shapiro-Wilk), serial correlation (Breusch Godfrey), heteroscedasticity (white test) and multicollinearity (Variance Inflation factor). Violation of any of the regression assumptions was corrected depending on the kind of violation.

The first diagnostic test was the test multicollinearity which was conducted using the Variance Inflation factor (VIF). Multicollinearity is a condition when two or more predictor

variables in the panel regression model have a high relationship. Values of the VIF above 5 indicate multicollinearity while values below 5 show no multicollinearity.

The test normality of residuals was conducted using Shapiro-Wilk on the regression residuals. The null-hypothesis of the test is that the residuals have a normal distribution. Therefore, if the p value of the test is less than 0.05, then the null hypothesis is rejected which indicates that there is evidence that the residuals are not normally distributed, However, when the p value is above 0.05, this shows that the residuals are normally distributed.

The serial correlation test was conducted using Breusch Godfrey. Serial correlation is the association between a variable and its lagged form over various time periods. The null hypothesis in the test is that there is no serial correlation. Therefore, if the p value is less than 0.05, the null hypothesis is rejected which is evidence of serial correlation. However, if the p value is above 0.05, this is evidence that there is no serial correlation.

The white test was used to assess heteroscedasticity. Heteroscedasticity is when the standard residuals of the regression model are non-constant over the different values of the predicted dependent variable. The null hypothesis in the test is homoscedasticity. This means that when the p value is below 0.05, there is heteroscedasticity. However, when the p value is above 0.05, there is homoscedasticity.

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

Data analysis, study findings and the discussion of the findings are presented in this chapter. The analysis of the data is through descriptive statistics, exploratory analysis and model fitting. The descriptive statistics of the study variables is provided first. This includes descriptive statistics of forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure, and Social accounting information disclosure and investor confidence. The analysis further provides the panel data plots for all the non-financial firms for the five years. The diagnostic tests (multicollinearity, serial correlation, heteroscedasticity and normality of residuals) are then provided which assess the model specification. Besides, the tests to establish the appropriate model to apply (Hausman tests and random effects tests) are conducted. Lastly, the selected model is fitted and the study findings discussed based on the theoretical and empirical literature.

#### **4.2 Descriptive Statistics**

The panel data descriptive statistics that were generated from the collected data are presented in this section. Data was collected for 45 non-financial firms listed in the NSE. Mumias Sugar Limited and Uchumi Supermarkets Limited had some missing data for some years and hence they were excluded from the analysis. The data was collected from five years (2015 – 2019) for each company and this was hence a balanced panel. The data included was data on forward-looking information disclosure (5 items), value-added statement disclosure (4 items), and human resource accounting information disclosure (6 items), social accounting information disclosure (6

items) and investor confidence (percentage change in shares owned by institutional investors). The descriptive statistics provided include minimums and maximums, standard deviations and the associated means. These are provided in Table 2.

**Table 2**  
**Descriptive Statistics**

Variable		Mean	Std. Dev.	Min	Max	Observations	
FLID	overall	2.466667	1.271248	0	5	N =	225
	between		1.004535	.6	4.2	n =	45
	within		.7905694	.6666667	4.066667	T =	5
VASD	overall	2.293333	1.258258	0	5	N =	225
	between		.886874	.4	3.8	n =	45
	within		.9003967	.4933333	4.093333	T =	5
HRID	overall	2.586667	1.500833	0	6	N =	225
	between		1.12039	.6	5.2	n =	45
	within		1.009774	.5866667	4.986667	T =	5
SAID	overall	2.946667	1.294494	0	6	N =	225
	between		.8435854	.4	4.8	n =	45
	within		.9883247	.7466667	4.946667	T =	5
IC	overall	1.588533	1.724254	-3.72	4.59	N =	225
	between		1.306494	-.862	3.39	n =	45
	within		1.138687	-2.861467	4.420533	T =	5

**Source: Author (2020).**

Table 2 provides the results which indicate that forward-looking information disclosure (FLID) averaged 2.47 with a standard deviation of 1.27. The implication of these findings is that amongst the five items that measured forward looking information disclosure, most of the non-financial firms listed in the NSE only disclosed on two of the five items on average. Regarding valued added statements disclosure (VASD), the mean was 2.29 with a standard deviation of 1.26. These findings suggest that the non-financial firms listed in the NSE mostly disclosed on

two of the four items assessed in the study. Besides, the findings indicate that the mean of social accounting information disclosure (SAID) which was assessed using six items was 2.95 with a standard deviation of 1.29. The implication of these findings is that most of the non-financial firms listed in the NSE disclosed had an average disclosure of three items amongst the six items included in the study.

Additionally, the study findings presented in Table 2 show that the mean of human resource accounting information disclosure (HRID) was 2.59 with a standard deviation of 1.5. these findings indicate that on average, the non-financial firms listed in the NSE disclosed on three items amongst the six items that were used to measure human resource accounting information disclosure in the study. Lastly the dependent variable in the study was investor confidence (IC) this was assessed by the percentage change in shares owned by institutional investors. The findings in Table 2 indicate that the average change was 1.59 with a standard deviation of 1.72. This indicates a positive investor confidence which is illustrated by the average increase in non-financial firms shares bought by institutional investors.

### **4.3 Study Variables**

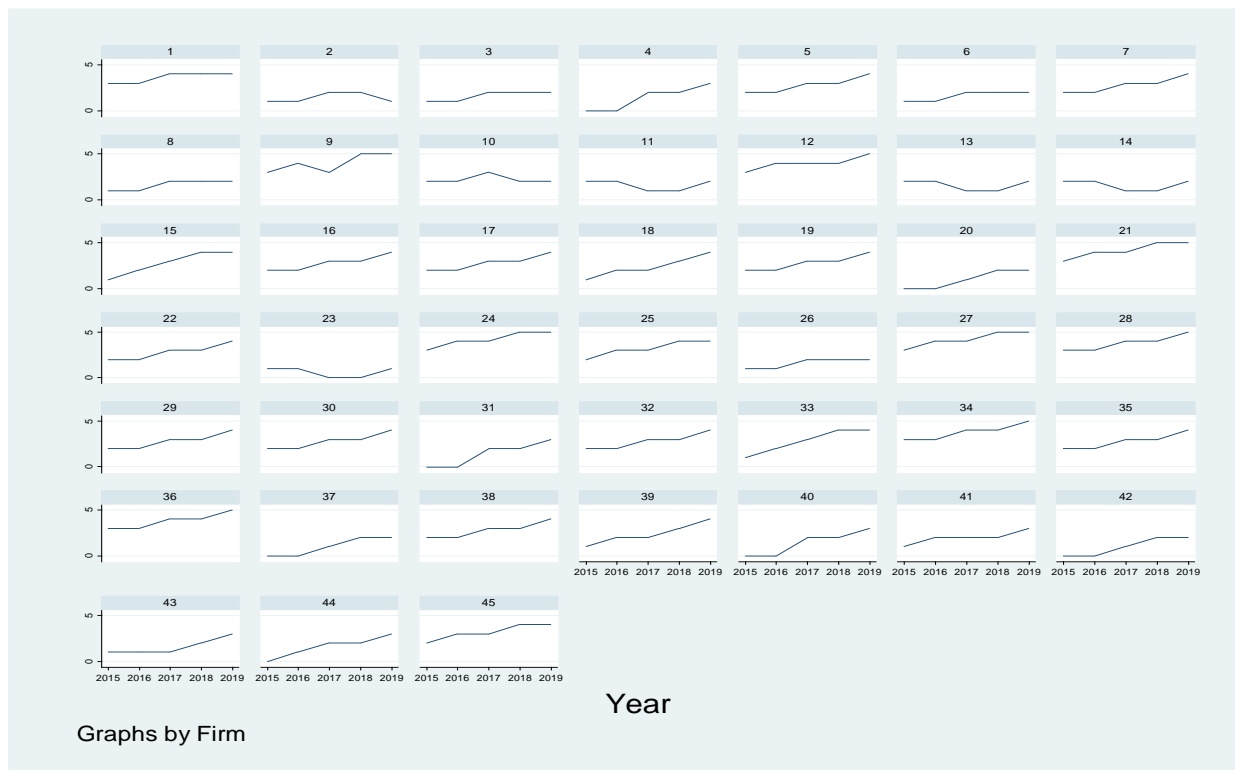
The study also conducted an exploratory analysis of the five variables that were included in the study. The trends of all the independent variables for the non-financial firms listed in the NSE for the five years (2015 – 2019) are provided in this section. Lastly, the study provides the overlain plots of the dependent variable. The independent variables included in the panel data plots are forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure, social accounting information disclosure and investor confidence. The overlain plots are provided for investor confidence.

### 4.3.1 Forward-Looking Information Disclosure

The panel data line plots for the 45 non-financial firms listed in the NSE for five years (2015 – 2019) regarding forward looking information disclosure are provided in Figure 2.

**Figure 2**

**Panel Data line plots for Forward-Looking Information Disclosure**



**Source: Author (2020).**

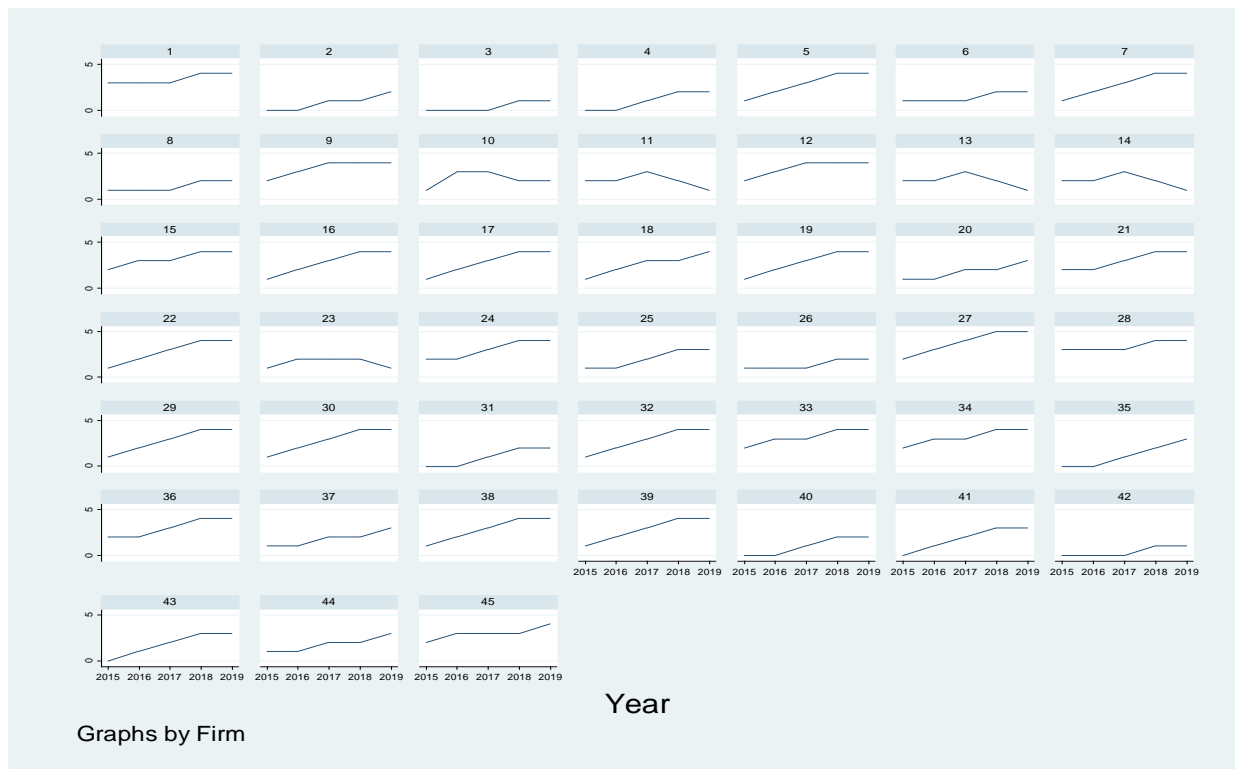
The results in Figure 2 indicate that most of the firms reported an improvement on forward-looking information disclosure over the five years period. However, some firms such as 2, 11, 13, 14 and 23 reported a decrease in forward-looking information disclosure in some of the years under study.

### 4.3.2 Value-added statement disclosure

The panel data line plots for the 45 non-financial firms listed in the NSE for five years (2015 – 2019) regarding valued added statement disclosure are provided in Figure 3.

**Figure 3**

**Panel Data line plots for value-added statement disclosure**



*Source: Author (2020).*

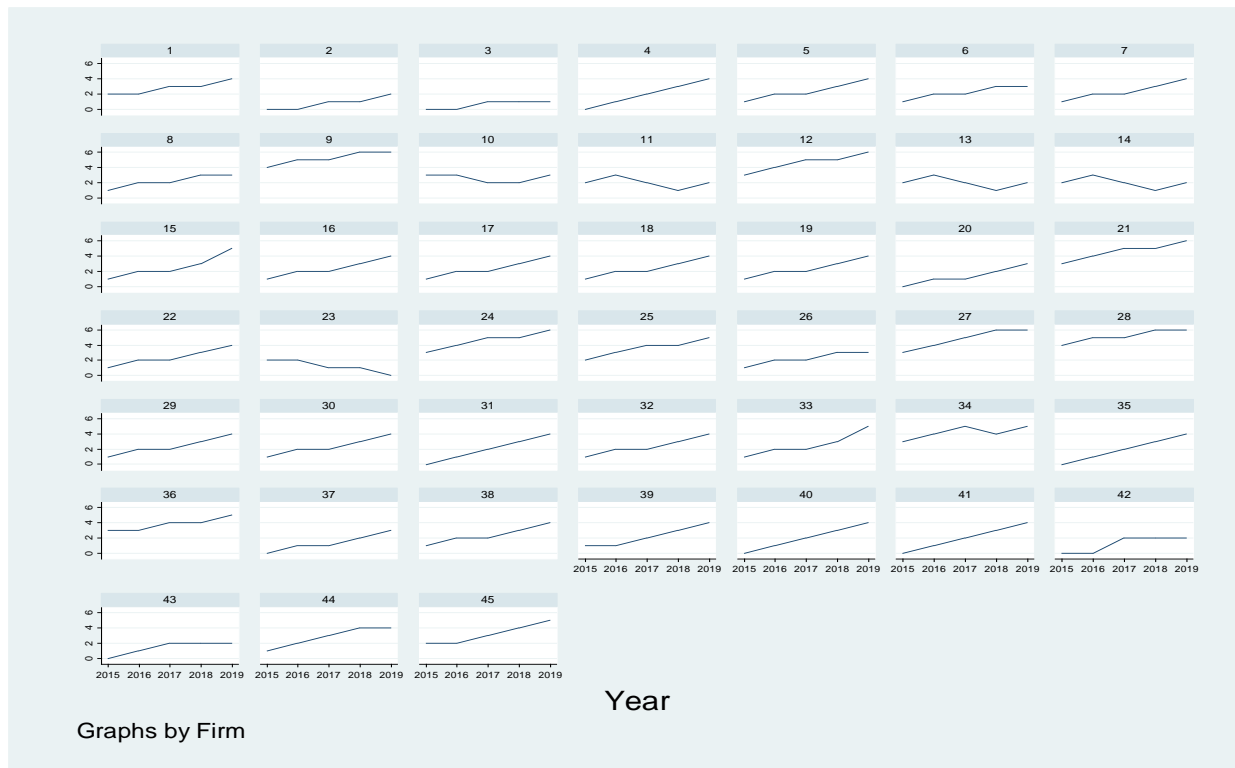
The results in Figure 3 reveal that most of the firms reported an improvement on disclosure of value-added statement disclosure over the five years period. However, some firms such as 10, 11, 13, 14 and 23 reported no improvement or a decrease in disclosure of value-added statement disclosure in some of the years under study.

### 4.3.3 Human resource accounting information disclosure

The panel data line plots for human resource accounting information disclosure for the 45 non-financial firms listed in the NSE for five years (2015 – 2019) are presented in Figure 4. The figure provides the growth or trends of the human resource accounting information disclosure for the five year period. This provides a basis for comparison of the 45 firms as the trends lay side by side.

**Figure 4**

**Panel Data line plots for Human resource accounting information disclosure**



*Source: Author (2020).*

The study results presented in Figure 4 establish that most of the firms reported an improvement on disclosure of Human resource accounting information disclosure over the five year period. However, there were some firms that reported no improvement or that experienced a

decrease in disclosure of Human resource accounting information disclosure in the period under study. These include firms 10, 11, 23, 34 and 42.

#### 4.3.4 Social accounting information disclosure

The panel data line plots for social accounting information disclosure for the non-financial firms listed in the NSE for five years (2015 – 2019) are presented in Figure 5. The figure provides the growth or trends of social accounting information disclosure over the five year period. This provides a basis for comparison of the trends for the 45 firms.

**Figure 5**

**Panel Data line plots for Social accounting information disclosure**



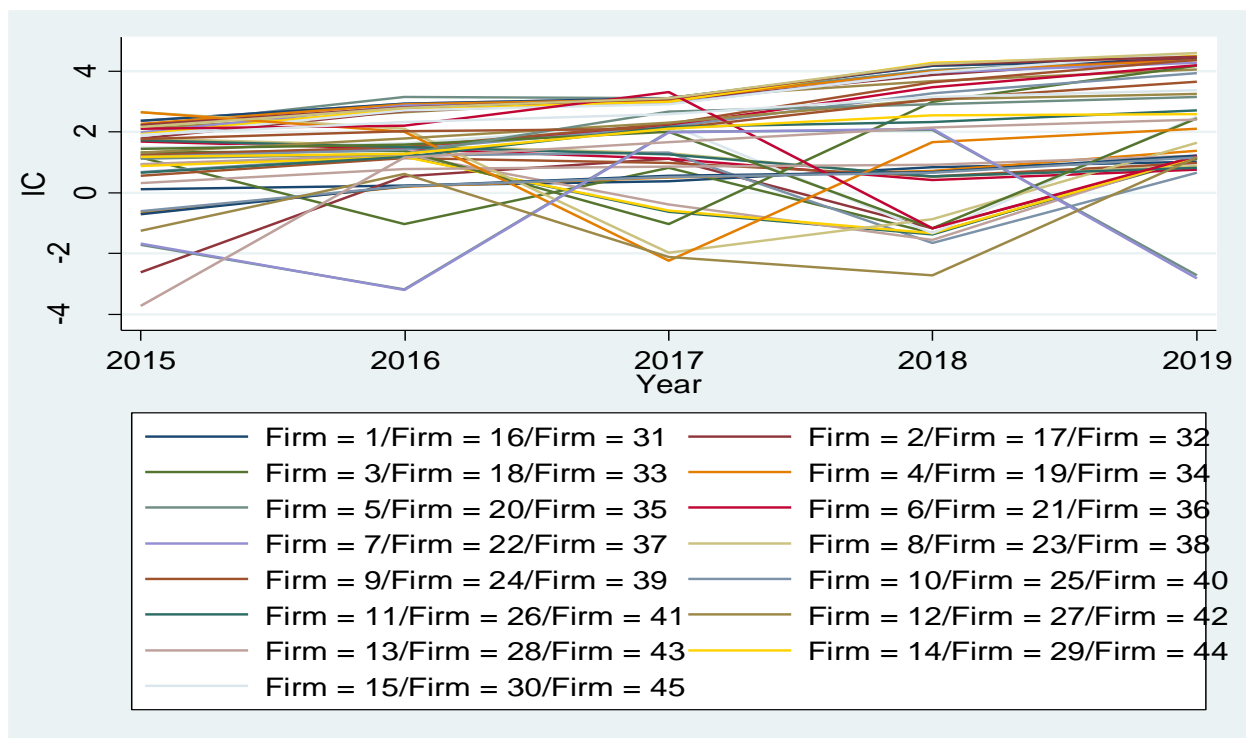
*Source: Author (2020).*

The study findings presented in Figure 5 show that a majority of the non-financial firms listed in the NSE improved their disclosure regarding social accounting information disclosure over the five years period as indicated by the growth plots. However, there were a few firms that reported decreased or no improvement in their level of disclosure. These include firms such as 2, 10, 11, 13, 14, 23, 44 and 45.

#### 4.3.5 Investor Confidence

The dependent variable in the study was Investor confidence. This was measured using the change in the percentage of shares owned by institutional investors. The overlain plots for investor confidence were developed and are as provided in Figure 6.

**Figure 6**  
**Overlain Plots for Investor Confidence**



Source: Author (2020).

The overlain plots provided in Figure 6 determined that majority of non-financial firms listed in the NSE experienced a small increase in investor confidence over the five year period. However, as indicated in the overlain plots, there were a few firms that experienced reduction in investor confidence in 2016 and 2017. This number increased in 2018. However, in 2019 only a few firms reported a decrease in investor confidence.

#### **4.4 Diagnostic Tests**

The study conducted various model specification tests to determine whether any of the regression assumptions was violated. The tests that were conducted included multicollinearity test that was conducted using the Variance Inflation factor (VIF), test for normality of residuals using Shapiro-Wilk, test for serial correlation test using Woodridge test for autocorrelation in panel data and test of heteroscedasticity using Cameron and Trivedi's white test. Wooldridge (2015) observes that model specification tests are critical as they assist in enabling a test on the efficiency, reliability and fitness of the adopted model for the data. The results of the various model specification tests are provided in this section.

##### ***4.4.1 Multicollinearity Test***

The first diagnostic test that was conducted was the test multicollinearity which was conducted using the Variance Inflation factor (VIF). Multicollinearity is a condition when two or more predictor variables in the panel regression model have a high relationship (Linton, 2017). Values of the VIF above 5 indicate multicollinearity while values below 5 show no multicollinearity. When multicollinearity exists in a model, this could influence the model stability, thus causing the coefficient estimates of the model to fluctuate heavily when such independent variables are

included in the model. This makes the model coefficient estimates to be overly sensitive to slight changes in the model changes. Further, multicollinearity can decrease the efficiency of the coefficients of the model, which can lead to reduction in the statistical power of the model and also weakening the capacity of the model to test hypothesis. Moreover, Hilmer and Hilmer (2013) posit that when multicollinearity exists in a model, the p-values of the various predictor variables could be unreliable. The results of the multicollinearity test (VIFs) are provided in Table 3.

**Table 3**  
**Multicollinearity Test**

Variable	VIF	1 / VIF
SAID	3.99	0.250498
FLID	3.48	0.287136
HRID	3.29	0.303599
VASD	2.95	0.339417
Mean VIF	3.43	

*Source: Author (2020).*

The study results presented in Table 3 established that all the predictors variables had VIFs that were below 4. Social accounting information disclosure had the highest VIF with 3.99 while valued added information disclosure had the lowest VIF with 2.95. The mean VIF was 3.43. These findings show that there was no multicollinearity. Angrist and Pischke (2014) observe that when VIFs are below 5, this is an indication of no high relationship amongst the study's predictor variables.

#### 4.4.2 Test of Heteroscedasticity

The Cameron and Trivedi's white test was conducted to assess the assess heteroscedasticity in the derived model. This a diagnostic test that is conducted after model fitting. Heteroscedasticity is when the standard residuals of the regression model are non-constant over the different values of the predicted dependent variable. The null hypothesis in the test is homoscedasticity. This means that when the p value is below 0.05, there is heteroscedasticity. However, when the p value is above 0.05, there is homoscedasticity. Though Gujarati (2011) observes that heteroscedasticity does not lead to bias of the regression estimates, it could lead to the reduction in the efficiency and precision of the model estimates and hence distorting the confidence intervals. Moreover, Linton (2017) notes that heteroscedasticity could lead to inflation of the p-values thus making the coefficient estimates to be unreliable in hypothesis testing. The study results of the heteroscedasticity test are provided in Table 4.

**Table 4**  
**White's Test for Heteroscedasticity**

Cameron & Trivedi's decomposition of IM-test			
Source	chi2	df	p
Heteroskedasticity	15.57	14	0.3404

*Source: Author (2020).*

The study results presented in Table 4 indicate that that the null hypothesis of homoscedasticity was accepted ( $p = 0.3404$ ). The implication of these findings is that the variance of the model residuals were homoscedastic (had a constant variance). According to

Wooldridge (2015), this implies that the fitted model was suitable for hypothesis testing as the p-values were reliable.

#### **4.4.3 Test of Autocorrelation**

The study applied the Woodridge test of testing serial correlation in panel data. Serial correlation is the association between a variable and its lagged form over various time periods, or the relationship between errors in one period with errors in succeeding periods (Hilmer & Hilmer, 2013). The null hypothesis in the test is that there is no serial correlation. Therefore, if the p value is less than 0.05, the null hypothesis is rejected which is evidence of serial correlation. However, if the p value is above 0.05, this is evidence that there is no serial correlation. Lincoln and Guba (2018) observe that serial correlation has serious consequences for a fitted regression model though it is not serious for data with fewer than 10 time periods. These include making variances of the coefficient estimates to be biased and inconsistent and affecting efficiency of the estimators. This leads to making any hypothesis testing based on such a coefficients to be unreliable. The results of the autocorrelation test are presented in Table 5.

**Table 5**  
**Test for Autocorrelation**

Wooldridge test for autocorrelation in panel data			
H0: no first order autocorrelation			
F(	1,	44)	= 0.897
	Prob >	F	= 0.3488

**Source: Author (2020).**

The study results presented in Table 5 indicate that there was no serial correlation since the p value was above 0.05 ( $p = 0.3488$ ). This indicates that the null hypothesis of no serial correlation was accepted. These findings suggest that the variances of the coefficient estimates were unbiased and consistent and hence the estimators were efficient and reliable (Gujarati, 2011). Therefore testing any hypothesis tested using the coefficient estimates would be valid.

#### **4.4.4 Test of Normality of Errors**

The test normality of residuals was conducted using Shapiro-Wilk on the regression residuals. The null-hypothesis of the test is that the residuals have a normal distribution. Therefore, if the p value of the test is less than 0.05, then the null hypothesis is rejected which indicates that there is evidence that the residuals are not normally distributed, However, when the p value is above 0.05, this shows that the residuals are normally distributed. Normality of residuals is essential to enable the study to make valid inferences from the model (Creswell & Creswell, 2017). In the current study, the residuals were saved after model fitting. They were then tested for normality using Shapiro Wilk tests. The results are presented in Table 6.

**Table 6**  
**Test of Normality of Residuals Using Shapiro Wilk**

Variable	Obs	W	V	z	Prob > z
Residuals	225	0.9792	1.339	0.637	0.2622

*Source: Author (2020).*

Table 6 provides the results of the Shapiro Wilk test of normality. The study results indicate that the null hypothesis of normality of the residuals could not be rejected since the p value was above 0.05 ( $p = 0.2622$ ). These findings imply that the computed p values are accurate and reliable.

#### 4.4.5 Hausman Test

After conducting diagnostic tests, Hausman test was conducted to assess the appropriate model between fixed effects model and random effects model. Gujarati (2011) notes that the Hausman model specification test is critical in panel regression analysis as it enables the study to make critical decisions regarding the most appropriate model to use based on the assumptions relating to unobservable individual fixed effects and characteristics. Hausman test examines the association between the unique characteristics and errors with the predictor variables. The test's null hypothesis is that the unique characteristics and errors are not associated with the independent variables and hence the random effects model is the one appropriate for the data. The alternate hypothesis is that the unique errors are associated with the independent variables and hence they need to be controlled using the fixed effects model. The Hausman test results are presented in Table 7.

**Table 7**  
**Hausman Test Results**

hausman fixed random				
	—— Coefficients ——			
	(b) fixed	(B) random		
FLID	.3675817	.4528858	-.0853041	.1290539
VASD	.47064	.3628232	.1078168	.102986
SAID	-.3236395	.055066	-.3787055	.1358768
HRID	.2901012	-.0601144	.3502156	.0767326
<div style="text-align: right; margin-right: 20px;">                     b = consistent under Ho and Ha; obtained from xtreg                      B = inconsistent under Ha, efficient under Ho; obtained from xtreg                 </div> <p>Test: Ho: difference in coefficients not systematic</p> <div style="text-align: center; margin-top: 10px;"> <math display="block">\text{chi2}(4) = (b-B)' [(V_b-V_B)^{-1}] (b-B)</math> <math display="block">= 28.28</math> <math display="block">\text{Prob}&gt;\text{chi2} = 0.0000</math> </div>				

**Source: Author (2020).**

The Hausman test results presented in Table 7 indicate that the null hypothesis was rejected ( $p = 0.0243$ ). The implication of these findings is that the fixed effects model is the one appropriate for the study. This suggest that there was a significant association between the unique errors of the model with the independent variables. The fixed effects model is appropriate in such to enable control of the unique characteristics and errors and only provide the effect of the independent variables on the dependent variable.

#### **4.5 Model Fitting**

After all diagnostic tests and Hausman test was conducted, the appropriate model for the study was fitted. The fixed effects model was fitted with the independent variables being forward-looking information disclosure (FLID), valued added statements disclosure (VASD), social accounting information disclosure (SAID) human resource accounting information disclosure (HRID). The dependent variable was investor confidence (IC). The results from the model are provided in Table 8.

The study findings provided in Table 8 show that the model was a good fit and was statistically significant ( $F = 12.75$ ),  $p < 0.05$ ). This is an indication that at least one of the independent variables in the model was statistically significant (Gujarati, 2011). The findings presented in Table 8 further show that the model explained 22.47% of the variance within the five years ( $r$  squared within = 0.2247) while it explained 24.69% of the variance between investor confidence of the non-financial firms listed in the NSE ( $r$  squared between = 0.2469). Besides, the model explained 23.1% of the total variance in investor confidence amongst the non-financial firms listed in the NSE for all the five years ( $r$  squared overall = 0.2310).

**Table 8****Fixed Effects Panel Data Regression Model**

Fixed-effects (within) regression		Number of obs	=	225		
Group variable: Firm		Number of groups	=	45		
R-sq: within	= 0.2247	Obs per group: min	=	5		
between	= 0.2469	avg	=	5.0		
overall	= 0.2310	max	=	5		
		F(4,176)	=	12.75		
corr(u <sub>i</sub> , Xb)	= -0.1160	Prob > F	=	0.0000		
IC	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
FLID	.3675817	.205808	1.79	0.076	-.0385876	.7737509
VASD	.47064	.1825359	2.58	0.011	.1103992	.8308808
SAID	-.3236395	.2192476	-1.48	0.142	-.7563322	.1090532
HRID	.2901012	.1552299	1.87	0.063	-.0162504	.5964528
_cons	-.3253358	.3044553	-1.07	0.287	-.9261889	.2755173
sigma_u	1.0812067					
sigma_e	1.3898235					
rho	.37702424	(fraction of variance due to u <sub>i</sub> )				
F test that all u <sub>i</sub> =0:		F(44, 176) =	2.45	Prob > F = 0.0000		

**Source: Author (2020).**

The study findings indicated that forward-looking information disclosure (FLID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.3676$ ,  $t = 1.79$ ,  $p = 0.076$ ). The findings further indicate that change in disclosure of forward-looking information by the non-financial firms listed in the NSE would not have a significant influence on investor confidence at 5% level of significance. The findings however, indicated that value added statements disclosure (VASD) had a significant positive effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.4706$ ,  $t = 2.58$ ,  $p = 0.011$ ). The findings imply that improvement in disclosure of valued added statements would be expected to lead to an increase in investor confidence of the non-financial firms listed in the NSE. Besides,

the findings imply that a 1 unit increase in disclosure of valued added statements disclosure would result to increase in investor confidence by 0.47%.

The study findings presented in Table 8 also showed that social accounting information disclosure (SAID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = -0.3236$ ,  $t = -1.48$ ,  $p = 0.142$ ). The findings further indicate that change in disclosure of social accounting information by the non-financial firms listed in the NSE would have a negative effect, but the effect on investor confidence is not significant. Lastly, the study findings indicated that human resource accounting information disclosure (HRID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.2901$ ,  $t = 1.87$ ,  $p = 0.063$ ). The findings further indicate that change in disclosure of human resource information by the non-financial firms listed in the NSE would have a positive effect, but the effect is not significant at 5% level of significance.

#### **4.6 Discussion of Findings**

The study findings indicated that forward-looking information disclosure (FLID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.3676$ ,  $t = 1.79$ ,  $p = 0.076$ ). The findings further indicate that change in disclosure of forward-looking information by the non-financial firms listed in the NSE would not have a significant influence on investor confidence at 5% level of significance. These findings do not support the signalling theory by Ross (1977) which proposes that when two parties in a contract have access to different information, one party must find mechanisms to communicate (or signal) that information to the other party for either party to have confidence or to trust each other. The fundamental concern of the signalling theory is to reduce information asymmetry between parties

in the organization or in contracts. Signalling theory hypothesizes that when a firm has valuable future information that it seeks to relay to various stakeholders, it must find a mechanism to disclose this information so that investors can make informed decisions regarding investing in the firm. However, the findings indicate that the information communicated through forward looking disclosures did not change their confidence regarding the firms. This could be due to not trusting the information or already having adequate information regarding the firm by investors.

The signalling theory was applied in this study to inform how disclosure of forward-looking information is expected to communicate about the future prospects of the firm to enable current and prospective investors to gain confidence regarding the future outlook of the company. The forward-looking information is aimed at providing guidance to investors so that they can make evidence-based investment decisions. This enables them to have confidence on their ability to interpret the information and make credible decisions. However, failure to disclose forward looking information will make investors to view the firm as risky and hence lower their confidence in relation to the firm. However, this theory was not supported by the study findings.

The study findings on the effect of forward-looking information disclosure on investor confidence support some past studies. For instance the findings support the findings by Ng'ang'a (2013) who examined the impact of voluntary disclosure by institutions listed in the NSE. The findings of the study showed that voluntary disclosure which includes forward looking information disclosure has no significant impact on investors confidence. However, Ng'ang'a (2013) recommended the need for constant increase in information disclosure to give investors surety for their investments. Another study that supports the findings from this study is the study by Wambugu and Essajee (2016) who investigated the impact of voluntary disclosure of

information on the stock returns of listed firms in the NSE. According to the findings, forward looking information disclosure did not significantly influence stocks returns.

The study findings on the effect of forward-looking information disclosure on investor confidence however, contradict past studies. Specifically, the study contradicts the findings by Hassanein, Zalata, and Hussainey (2019) who investigated the impact of forward looking disclosures on the value of non-financial firms in UK FTSE. The study established that forward looking information disclosure positively influenced the investors' valuation of low and high performing firms. Besides, the findings also contradict the study findings by Waweru (2018) who examined the impact of voluntary accounting disclosure on the market performance of non-financial firms listed in the NSE. The research by Waweru established that forward looking information disclosure is significantly related to market performance.

The study findings by Bravo (2016) are contradicted by the findings of the study regarding effect of forward-looking disclosure on investor confidence. The study by Bravo established that forward looking information disclosure has a significant impact on the capital market thus influencing investor confidence. Further, the study findings also contradict the findings by Bozzolan, Trombetta, and Beretta (2009) who examined the relationship between forward looking disclosures and financial verifiability among cross listed European firms. The study findings by Bozzolan, Trombetta, and Beretta showed that verifiable disclosures have an effect on improving accuracy and reducing dispersion of analyst forecast.

Other studies with findings that contradict the findings from this study include Musyoka (2017), Agyei-Mensah (2017), Waweru (2018), Waweru, Memba, and Njeru (2016), Mousa and Elamir (2018), Mwangi and Mwiti (2015) and Chen, Tan, and Gong (2013). However, most of these studies were conducted outside the country, had different dependent variables and hence

the findings could be different from the findings of this study. Besides, the various considered different time periods from the five years considered in this study.

The findings on value added statements disclosure established that this form of disclosure had a significant positive effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.4706$ ,  $t = 2.58$ ,  $p = 0.011$ ). The findings imply that improvement in disclosure of valued added statements would be expected to lead to an increase in investor confidence of the non-financial firms listed in the NSE. Besides, the findings imply that a 1 unit increase in disclosure of valued added statements disclosure would result to increase in investor confidence by 0.47%. These findings support the agency theory by Jensen and Meckling (1976) whose fundamental foundation is that those people tasked with representing others should wholesomely pledge the corporate resources to maximization of the value of their principals and thereby reducing the agency problem. The theory indicates that due to the information asymmetry that exists between principals (shareholders) and agents (managers), measures must be taken to address this asymmetry. This could be through monitoring (mostly through board of directors), placing restrictions on management and performance-based remuneration or requiring full transparency such as value added statements disclosure. The findings from this study supported the theory's propositions.

This theory was used in this study to explain how voluntary accounting disclosures are applied to bridge the information asymmetry between shareholders and management by disclosing value-added statements for enhanced investor confidence. When there is information asymmetry between agents and shareholders, the agents (managers) could seek to voluntarily disclose value added information to the stakeholders which is expected to enhance confidence amongst the various constituents. However, the organizations that do not disclose the value-

added information to stakeholders is expected to be perceived as secretive and hence motivate little confidence amongst the investors. The findings from this study give credence to this theory.

The study findings on the effect of value-added statement disclosure on investor confidence agree with findings from previous studies. For instance, the current study findings support the findings by Ianniello (2010) who examined the theoretical issues regarding the disclosure of value-added statement as a voluntary disclosure process of accounting communication. The study established that disclosure of value-added statement is a critical source of information for investors. The current study findings also agree with the findings by Mutiva (2015) who investigated the relationship between voluntary disclosure of information and financial performance of firms listed in the NSE. From the findings, Mutiva (2015) shows that VAS has a significant relationship to financial performance of listed firms. It was conclusive to note that high level of VAS influences the investors' confidence. Moreover, the study findings support the findings by Waweru (2018) who examined the impact of value-added statement disclosure on the market performance of non-financial firms listed in the NSE. Waweru established a positive effect of the variable on the firms' performance thus critical in determining investors' confidence.

Other studies with similar findings regarding effect of value added statements disclosure on investor confidence include Blessing and Onoja (2015), Opanyi, (2019), Mutiva (2015), Kimeu (2019), Ianniello (2010) and Akhtaruddin, Hossain, Hossain, and Yao (2009). These studies investigated the relationship between value-added statement disclosure and various firms' aspects such as firm value, financial performance and firm's stock performance among others. The findings however, indicated a positive relationship between value added statement disclosure and the studies firm dependent variables. These findings are supported by the findings

from this study which established that value added statements disclosure have apposite effect on investor confidence of non-financial firms listed in the NSE.

The study findings showed that social accounting information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = -0.3236$ ,  $t = -1.48$ ,  $p = 0.142$ ). The findings further indicate that change in disclosure of social accounting information by the non-financial firms listed in the NSE would have a negative effect, but the effect on investor confidence is not significant. These findings failed to support the legitimacy theory by Dowling and Pfeffer (1975) which proposes that organizations can establish and implement voluntary disclosures to gain legitimacy amongst its shareholders and other key stakeholders. The theory further indicates that a company can implement voluntary social disclosures to enable them fulfil their social contracts towards shareholders and other publics. Legitimacy theory is hence perceived to provide the purpose of voluntary disclosures to establish its values towards the community and the environment. This was underscored by Ashforth and Gibbs (1990), who observed that organizations go beyond the legal aspects of disclosure to create a reputation as a caring entity and a legitimate member of the community. This has the effect of enhancing confidence in stakeholders. However, the findings from the study indicated no significant effect of social accounting information disclosure on investor confidence of the non-financial firms listed in the NSE, thus contradicting the propositions of the theory.

The legitimacy theory was applied in this study to explain why organizations are motivated to disclose their social activities as a way to gain legitimacy in the society and make stakeholders have confidence in the organization. It was expected that organizations that disclose their social and environmental activities are seen to be legitimate and trustworthy by investors.

Conversely, organizations that fail to disclose their social activities are perceived to be secretive or to be involved in illegitimate activities. This creates a situation of mistrust in the perspective of the potential and current investors towards such an organization. However, despite the varying levels of social accounting information disclosure by the non-financial firms listed in the NSE, this did not have a significant effect on investor confidence.

The study findings that social accounting information disclosure has no significant effect on investor confidence are supported by various previous studies. Specifically, the study supports the findings by Ng'ang'a (2016) who observed that though voluntary disclosure of social information is critical for reputation and transparency of the firm, it is not a major factor influencing investors' confidence among firms listed in the NSE. A corresponding study by Kalunda (2007) investigated the corporate social reporting practices among firms listed in NSE. The research determined that most institutions engage in reporting corporate social responsibilities. The practice focuses on improving the investors' confidence on managerial transparency and competence. However, this is rarely achieved. Another study supported by the current study findings is by Barako (2007) whose study determined that voluntary disclosure of social information in financial reports is a critical part of building investors' confidence. The prevalence of disclosing social accounting information is critical in improving performance since it makes provision for informed decisions relating to investments. However, many investors seem focussed on financial information and hence disclosure of social information does not influence investor confidence. This was supported by the findings of the current study.

The study results of social accounting information disclosure have no significant effect on investor confidence contradict some previous studies. For instance, the findings contradict the results by García-Sánchez and Martínez-Ferrero (2018) who determined that disclosure of social

accounting information relating to corporate social responsibility assures transparency and sustainability. According to the authors, it enhances assurance that has a major role in promoting investors' confidence. Moreover, Wang, Shen, and Yang (2020) examined the relationship between disclosures of environmental information on the firms' investments among Chinese listed companies. The study established that voluntary disclosure of social accounting information enhances transparency thus increasing the investors' confidence in relation to future performance. Besides, the current study findings also contradict the findings by Barakat, Pérez, and Ariza (2015) who examined the determinants for corporate social responsibility disclosure among listed firms in Jordan and Palestine. The findings of the research showed that there is a significant relationship between social information disclosure and corporate governance.

Other previous studies that are contradicted by the findings from this study include Barakat, Pérez, and Ariza (2015) who determined that voluntary social information disclosure plays a vital role in enhancing firms' performance and stakeholders' confidence and Wasara and Ganda (2019) who established that social disclosure positively influences return on investment thus affecting investors' confidence. Moreover, Smith, Adhikari, Tondkar, & Andrews (2010) determined that voluntary disclosure of social and environmental information influences the investors' decision-making process. Additionally, Van der Laan Smith, Adhikari, Tondkar, and Andrews (2010) determined that corporate social disclosure impacts the investors' reactions while Waweru (2018) determined that social accounting information disclosure has a significant effect on market performance of non-financial firms listed in the NSE.

Lastly, the study findings indicated that human resource accounting information disclosure (HRID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE ( $\beta = 0.2901$ ,  $t = 1.87$ ,  $p = 0.063$ ). The findings further indicate that

change in disclosure of human resource information by the non-financial firms listed in the NSE would have a positive effect, but the effect is not significant at 5% level of significance. These findings did not support stakeholder theory by Freeman (1984) which addresses moral values in the management of an organization and how the organization relates with its key stakeholders. The theory relates to the contracts between entities comprising contracts in the market economy, corporate social responsibility and social contracts. Within a corporate entity, stakeholders are the entities or persons who influence or are influenced by the policies, decisions and actions of the company. Therefore, the top management in the entity is obligated to involve stakeholders in decision making in the organization and strike a balance between the interests of the organization's stakeholders and the management. However, reporting on human resources practices of the firm did not seem to influence stakeholder confidence thus failing to support the basic tenets of this theory.

The stakeholder theory was used in this study to establish how organizations can use human resource accounting information disclosure to inform stakeholders how it plans and accounts for its key resource (human resource) to enhance investor confidence. Stakeholder theory indicates that disclosure of practices and information is the minimum acceptable form of accountability to stakeholders to enable them makes decisions regarding their relationships with the firm. One of the key stakeholders of the firm is the human resource and disclosing information about the company's investments in human resource can enable the firm to have a good reputation and relationship with both current and potential investors. However, the study determined that the level of disclosure of human resource information did not affect the level of investor confidence. The findings therefore, failed to support the theory.

The study determined that human resource accounting disclosure did not have a significant effect on investor confidence. This contradicted with the findings by Anifowose, Rashid, and Annuar (2017) who investigated the possible determinants of human capital disclosure within listed firms in Nigeria. The results of the study determined that investors utilize disclosure of human resource accounting information in making investment decisions. The study also contradicts the findings by Avazzadehfath and Raiashekar (2011) who examined the process of making decisions based on HRAD within institutions. From the findings, HRAD in companies' financial statement is relevant and influences optimal investment decisions. The study findings also contradict the findings by Muya (1999) that there is a linear relationship between HRAD and the level of investor's confidence.

The findings from the study also contradict other studies such as Akintoye, Awoniyi, Jayeoba, and Ifayemi (2016), Sarkar, Alam, and Ali (2016) and Edom and Inah (2015) who determined that voluntary disclosure of HRA is critical in enhancing accountability and stakeholders' confidence. The concept of accounting and disclosure of human resources is founded on the need to enhance future performance and sustainability in business. Besides, the study contradicts the findings by Akintoye (2012) who established that HRAD involves disclosure of accounting related to human asset within organizations, which is critical in promoting the quality of financial reporting. Additionally, a corresponding study by Shreelatha, Sinha, and Sambargi, (2018) investigated the impact of disclosing human resource accounting on the stock investment decision. The study established that disclosure of human resource accounting plays a significant role in enhancing investors' self-assurance on the future business performance.

The current study findings that human resource accounting disclosure did not have a significant effect on investor confidence support some previous studies. The findings support the results by Waweru (2018) who examined the impact of human resource accounting information disclosure on the market performance of non-financial firms listed in the NSE. According Waweru, there is no significant effect of human resource accounting information disclosure on the firms' performance, thus indicating that it is not critical in determining investors' confidence.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This is the last chapter of the dissertation and it provides the summary of the study findings, the conclusions derived from the findings and the conclusions made in the study after considering the study conclusions. Besides, the chapter provides suggestions for further research considering the gaps that the study left in the study area. Moreover, the limitations of the study and its contributions to knowledge are provided in the chapter.

#### 5.2 Summary

The summary of the study findings are presented in this section. This relates to the findings and the answers to the research questions of the study. The questions related to the effect of forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure and social accounting information disclosure on investor confidence of non-financial firms listed in the NSE. The summary of the findings are provided in relation to the study's research questions.

##### *5.2.1 Effect of forward-looking information disclosure on investor confidence*

The study findings indicated that forward-looking information disclosure (FLID) did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. The findings further indicate that change in disclosure of forward-looking information by the non-financial firms listed in the NSE would not have a significant influence on investor confidence at 5% level of significance. These findings do not support the signalling theory by Ross (1977)

which proposes that when two parties in a contract have access to different information, one party must find mechanisms to communicate (or signal) that information to the other party for either party to have confidence or to trust each other. The fundamental concern of the signalling theory is to reduce information asymmetry between parties in the organization or in contracts. Signalling theory hypothesizes that when a firm has valuable future information that it seeks to relay to various stakeholders, it must find a mechanism to disclose this information so that investors can make informed decisions regarding investing in the firm. However, the finding indicates that the information communicated through forward looking disclosures did not change their confidence regarding the firms. This could be due to not trusting the information or already having adequate information regarding the firm by investors.

The signalling theory was applied in this study to inform how disclosure of forward-looking information is expected to communicate about the future prospects of the firm to enable current and prospective investors to gain confidence regarding the future outlook of the company. The forward-looking information is aimed at providing guidance to investors so that they can make evidence-based investment decisions. This enables them to have confidence on their ability to interpret the information and make credible decisions. However, failure to disclose forward looking information will make investors to view the firm as risky and hence lower their confidence in relation to the firm. However, this theory was not supported by the study findings.

### ***5.2.2 Effect of value-added statement disclosure on investor confidence***

The findings from the study determined that valued added statements disclosure (VASD) had a significant positive effect on investor confidence of the non-financial firms listed in the NSE.

The findings imply that improvement in disclosure of valued added statements would be expected to lead to an increase in investor confidence of the non-financial firms listed in the NSE. Besides, the findings imply that a unit increase in disclosure of valued added statements disclosure would result to increase in investor confidence. These findings support the agency theory by Jensen and Meckling (1976) whose fundamental foundation is that those people tasked with representing others should wholesomely pledge the corporate resources to maximization of the value of their principals and thereby reducing the agency problem. The theory indicates that due to the information asymmetry that exists between principals (shareholders) and agents (managers), measures must be taken to address this asymmetry. This could be through monitoring (mostly through board of directors), placing restrictions on management and performance-based remuneration or requiring full transparency such as value added statements disclosure. The findings from this study supported the theory's propositions.

This theory was used in this study to explain how voluntary accounting disclosures are applied to bridge the information asymmetry between shareholders and management by disclosing value-added statements for enhanced investor confidence. When there is information asymmetry between agents and shareholders, the agents (managers) could seek to voluntarily disclose value added information to the stakeholders which is expected to enhance confidence amongst the various constituents. However, the organizations that do not disclose the value-added information to stakeholders is expected to be perceived as secretive and hence motivate little confidence amongst the investors. The findings from this study give credence to this theory.

### ***5.2.3 Effect of human resource accounting information disclosure on investor confidence***

The study findings indicated that human resource accounting information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. The findings further indicate that change in disclosure of human resource information by the non-financial firms listed in the NSE would have a positive effect, but the effect is not significant at 5% level of significance.

These findings did not support stakeholder theory by Freeman (1984) which addresses moral values in the management of an organization and how the organization relates with its key stakeholders. The theory relates to the contracts between entities comprising contracts in the market economy, corporate social responsibility and social contracts. Within a corporate entity, stakeholders are the entities or persons who influence or are influenced by the policies, decisions and actions of the company. Therefore, the top management in the entity is obligated to involve stakeholders in decision making in the organization and strike a balance between the interests of the organization's stakeholders and the management. However, the study determined that the level of disclosure of human resource information did not affect the level of investor confidence. The findings therefore, failed to support the theory.

### ***5.2.4 Effect of social accounting information disclosure on investor confidence***

The study findings established that social accounting information disclosure did not have a significant effect on investor confidence of the non-financial firms listed in the NSE. The findings further indicate that change in disclosure of social accounting information by the non-financial firms listed in the NSE would have a negative effect, but the effect on investor confidence is not significant. These findings failed to support the legitimacy theory by Dowling

and Pfeffer (1975) which proposes that organizations can establish and implement voluntary disclosures to gain legitimacy amongst its shareholders and other key stakeholders.

The theory further indicates that a company can implement voluntary social disclosures to enable them fulfil their social contracts towards shareholders and other publics. Legitimacy theory is hence perceived to provide the purpose of voluntary disclosures to establish its values towards the community and the environment. The legitimacy theory was applied in this study to explain why organizations are motivated to disclose their social activities as a way to gain legitimacy in the society and make stakeholders have confidence in the organization. It was expected that organizations that disclose their social and environmental activities are seen to be legitimate and trustworthy by investors. Conversely, organizations that fail to disclose their social activities are perceived to be secretive or to be involved in illegitimate activities. This creates a situation of mistrust in the perspective of the potential and current investors towards such an organization. However, despite the varying levels of social accounting information disclosure by the non-financial firms listed in the NSE, this did not have a significant effect on investor confidence

### **5.3 Conclusions**

The study concludes that forward-looking information disclosure is not critical in driving investor confidence of the non-financial firms listed in the NSE. The study further concludes that change in disclosure of forward-looking information by the non-financial firms listed in the NSE is not expected to raise or reduce investor confidence.

Regarding valued added statements disclosure, the study concludes that this form of disclosure is essential for boosting investor confidence of the non-financial firms listed in the

NSE. The study further concludes that improvement in disclosure of valued added statements would be expected to enhance investor confidence of the non-financial firms listed in the NSE.

On human resource accounting information disclosure, the study concludes that this type of disclosure is not vital in influencing investor confidence of the non-financial firms listed in the NSE. The study also makes the conclusion that change in disclosure of human resource information by the non-financial firms listed in the NSE would is not expected to have any considerable effect on investor confidence of the firms listed in the NSE.

Lastly, the study concludes that social accounting information disclosure is not critical in determining investor confidence of the non-financial firms listed in the NSE. Further, the study concludes that any variation in disclosure of social accounting information by the non-financial firms listed in the NSE is not expected to have any effect on investor confidence.

#### **5.4 Recommendations**

This study recommends that all non-financial firms listed in the NSE should critically consider in-depth disclosure of value added information using value added statements as a voluntary disclosure in the process of accounting communication to the stakeholders including investors. The economic and social motivation towards value added reporting is linked to the general process of disclosure of financial information to add value to the investors and other stakeholders in the business environment. The information disclosed in the value added statements can be used by the organization's stakeholders, particularly the investors, to judge the productivity analysis of the firm, its efficiency, and its ranking among similar firms. This would give potential and current investors key information regarding the firms and whether to invest or divest in it.

Non-financial firms listed in the NSE should hence emulate their financial counterparts and provide more information to users through the value added statements.

The study established that forward-looking information disclosure, human resource accounting information disclosure and social accounting information disclosure did not significantly influence investor confidence of non-financial firms listed in the NSE. This however, should not mean that these firms should neglect disclosing this information in the annual reports. This is because the current study only assessed the effects of these disclosures on investor confidence and did not exhaustively assess the influence of these disclosures on other key aspects of the organization such as firm value, customer retention and brand reputation among others.

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

Though the study provided important findings on the influence of voluntary accounting disclosures on investor confidence, the study has several limitations that should be considered when interpreting or generalizing the findings. First, study focussed on the effect of voluntary accounting disclosures on investor confidence of non-financial firms listed in NSE. The study focussed on four forms of disclosure which include forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure and social accounting information disclosure. The study can therefore not inform on the influence of other types of disclosures such as strategic and corporate information and capital markets disclosures on investor confidence.

The study was limited to the influence of the various forms of disclosure on investor confidence. The findings would therefore not provide insights into how voluntary disclosures

affect other aspects of the firm such as firm performance or firm value. Lastly, the study only focussed on listed non-financial firms in Kenya and thus leaving other firms such as financial firms and those firms that are not listed in the NSE.

## **5.6 Recommendations for Further Research**

This study focussed on the effect of voluntary accounting disclosures on investor confidence of non-financial firms listed in NSE. The study focussed on four forms of disclosure which include forward-looking information disclosure, value-added statement disclosure, human resource accounting information disclosure and social accounting information disclosure. The study recommends a study in the future that would focus on other types of disclosures including strategic and corporate information and capital markets disclosures.

The study also focussed on how the various forms of disclosure relate to investor confidence. The study would suggest future studies to focus on other dependent variables such as firm value. Moreover, future studies could consider other non-financial aspects such as firm reputation, brand value, customer retention and share value. These non-financial performance indicators are critical for the competitiveness and sustainability of the firm and hence critical for the firm.

Lastly, the study proposes a future study on voluntary accounting disclosures that would focus on financial firms or firms that are not listed in NSE. Such a study would be critical in providing information on how voluntary disclosures influence performance, value or sustainability of financial firms. Besides, a study on firms that have not been listed in the NSE would provide deep insights on the disclosure aspects of these non-listed firms.

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## APPENDICES

### Appendix I: Voluntary Disclosure Index as per annual reports (2015 – 2019)

This data collection sheet will be filled after examination of the annual financial statements. It will indicate whether the indicated aspect is Disclosed (D) or Not Disclosed (ND). A value of 1 will be provided for D and 0 for ND. A sum will then be provided for each disclosure category for each firm in each of the five years.

#### Section A: Forward-looking information disclosure

No.	Disclosure items	0 (ND)	1 (D)
1.	Information on long term business objectives		
2.	Disclosure on strategies or strategic plans		
3.	Provision of projections and trends of financial matters		
4.	Assumptions underlying objectives, risks and projections		
5.	Expected risks		

#### Section B: Value added statement disclosure

No.	Disclosure items	0 (ND)	1 (D)
1.	Statement of value created		
2.	Report on appropriation of wealth created by the firm		
3.	Report on value retained by the firm		
4.	Report on expected growth in value creation		

#### Section C: Social accounting disclosure index

No.	Disclosure items	0 (ND)	1 (D)
1.	Information on charitable and social responsibility activities sponsored by firm		

2.	Involvement in environmental initiatives		
3.	Support for less disadvantaged in the society (elderly, orphans)		
4.	Report on sustainability practices		
5.	Statement on customer relations		
6.	Fair business practices		

**SECTION D: Human resource disclosure index**

No.	Disclosure items	0 (ND)	1 (D)
1.	Information on employee training and education		
2.	Information on compensation philosophy		
3.	Information on management bonus schemes		
4.	Information on directors' remuneration		
5.	Employee health and safety		
6.	Information on equal employment to all (minorities and women)		

**Section E: Percentage of shares bought by institutional investors**

**2014** \_\_\_\_\_

**2015** \_\_\_\_\_

**2016** \_\_\_\_\_

**2017** \_\_\_\_\_

**2018** \_\_\_\_\_

**2019** \_\_\_\_\_

## **Appendix II: Listed Non-Financial Firms in Nairobi Securities Exchange in Kenya**

### **Investment**

1. Nairobi Securities Exchange Ltd
2. Trans-Century Ltd
3. Olympia Capital Holdings Ltd
4. Kurwitu Ventures
5. Home Afrika Ltd
6. Centum Investment Co Ltd

### **Real Estate Investment Trust**

7. Stanlib Fahari I-REIT

### **Agricultural Sector**

8. Kapchorua Tea Company Ltd
9. Sasini Ltd
10. Williamson Kenya Tea Ltd
11. Rea Vipingo Plantations Ltd
12. Limuru Tea Company Ltd
13. Eaagads Ltd
14. Kakuzi Ltd

### **Automobiles and Accessories**

15. Sameer Africa PLC
16. Express Ltd
17. Car and General (K) Ltd

### **Energy and Petroleum**

18. Kenya Power & Lighting Co Ltd
19. KenGen Ltd
20. Kenolkobil Ltd
21. Umeme Ltd
22. Total Kenya Ltd

### **Exchange Traded Fund**

23. New Gold Issuer (RP) Ltd

### **Manufacturing and Allied**

24. Eveready East Africa Ltd
25. Flame Tree Group Holdings Ltd
26. Mumias Sugar Co. Ltd
27. B.O.C Kenya Ltd
28. Unga Group Ltd
29. Carbacid Investments Ltd
30. East African Breweries Ltd
31. Kenya Orchards Ltd

32. British American Tobacco Kenya Ltd

**Telecommunication and Technology**

33. Safaricom PLC

**Commercial and Services**

34. Scangroup Ltd

35. Standard Group Ltd

36. Nairobi Business Ventures Ltd

37. Uchumi Supermarket Ltd

38. Kenya Airways Ltd

39. Nation Media Group

40. Deacons (East Africa) PLC

41. TPS Eastern Africa (Serena) Ltd

42. Longhorn Publishers Ltd

**Construction and Allied**

43. E. A. Portland Cement Ltd

44. Crown Paints Kenya PLC

45. Athi River Mining

46. E. A. Cables Ltd

47. Bamburi Cement Ltd