

**THE USE OF FINANCIAL DISCLOSURES FOR DECISION MAKING BY
INVESTORS IN KENYA: A CASE OF INSTITUTIONAL INVESTORS AT NAIROBI
STOCK EXCHANGE**

BY

**WESONGA OTUKU ANTONY
D61/P/7335/02**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

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DECLARATION

This is my original work and has not been presented for the award of a degree in any other university.

.....
AESONWA

Antony Otuku Wesonga

D61/P/7335/02

.....
NOV 17, 2008

Date

This management project has been submitted for examination with my approval as university supervisor.

.....
Wesonga

Mrs. Winnie Nyamute

Lecturer, Department of Accounting & Finance

School of Business

University of Nairobi

.....
Nov 19, 2008

Date

DEDICATION

I dedicate this work, first, to my mother and my teachers whose nurturing has motivated me to study industriously throughout my life. Secondly, I remember and devote this research to the poor farmers from Mumias district in western Kenya, who lost their wealth to scrupulous brokers on shares allotted to them by Mumias Sugar Company (MSCo) in its first Initial Public Offer (IPO) in the year 2002. Middle-men and speculators took the opportunity to make easy money by buying the shares from the farmers at a throwaway price and selling at the market price. Thus the farmers wished to know the really value of the share certificates, which appeared to be of less value than the two kilo bag of sugar given annually at the Annual General Meetings (AGMs). Their situation gave me an impetus to search for the utility of financial information in investment decisions. I thus quote;

Gibran (2004), who wrote:

And The Merchant said, Speak to us of
Buying and Selling.

And he answered and said:

To you the earth yields her fruit, and you shall not
want if you but know to fill your hands.

It is in exchanging the gifts of the earth that you
Shall find abundance and be satisfied

Yet unless the exchange be in love and kindly justice
It will lead some to greed and others to hunger.

When in the market-place you toilers of the sea and
fields and vineyards meet the weavers and the potters
and the gatherers of spice-

Invoke then the master spirit of the earth, to come
into your midst and sanctify the scales and the
reckoning that weighs value against value.....

And before you leave the market place, see that no
one has gone his way with empty hands.

For the master spirit of the earth shall not sleep
peaceful upon the wind till the needs of the least
of you are satisfied.

ACKNOWLEDGMENT

I do appreciate the immense work, sacrifice, challenges and advice from several people without whom this research project would not have seen the light of day. First, I wish to thank Mrs Winnie Nyamute, my supervisor, who accompanied me through the stages of writing the proposal and report. She was patient enough with me to see me move from exam and note-taking oriented person to a focused researcher and a writer. I recognize the contributions of Mr. McFee whose literature materials, criticism and discussions kept me focused. I am grateful to Rev Fr Dr. Alex Ochumbo for who aided proof reading this work. I believe that am a better person academically and professionally now than before I started writing this project. I have learned more and paid less in the hands of these intellectuals than I did in class setting.

I am humbled by the positive responses I received from Chief Executive Officers (CEO), managers, finance officer, administrators and financial advisor who took their precious time to respond to the questionnaires presented to them. Their timely and active responses made my work easy and less costly. I do appreciate the following persons who worked under me as research assistants; Antony Basasa, Florence Isega, Martha Bedi, Douglas Wandabusi, Susan Mui, Xaviour Onyango and Isaac Bwire. I did benefit a lot from librarians at Nairobi University and British Council. Finally, but not the least, I do thank members of my family, especially my wife Clotilda Chemeli, my workmates at Jesuit Refugee Service, MBA students and lecturers. These are my companions whose assistance and mere presence motivated me to stay on course.

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ABBREVIATIONS

AGM	-	Annual General Meeting
ASK	-	Association of Insurance of Kenya
CEOs	-	Chief Executive Officers
CMA	-	Capital Market Authority
EMH	-	Efficient Market Hypothesis
FASB	-	Financial Accounting Standard Board (British)
FiRe	-	Financial Reporting Award
GDP	-	Gross Domestic Product
IC	-	Insurance Companies
ICT	-	Information and Communication Technology
ICPAK	-	Institute of Certified Public Accountants of Kenya
IFAC	-	International Federation of Accountants
IFSB	-	International Financial Standards Board
IFRSs	-	International Financial Reporting Standards
IFRs	-	International Financial Reporting Statements
IPO's	-	Initial Public Offers
LSE	-	London Stock Exchange
MSCo	-	Mumias Sugar Company
NSE	-	Nairobi Stock Exchange
NSSF	-	National Social Security Fund
NGO	-	Non-Governmental Organization
PS	-	Pension Schemes
RBA	-	Retirement Benefit Authority
R&D	-	Research and Development

SB	-	Stock Brokers
SSP	-	Statistical Package for Social Sciences
UT	-	Unit Trusts
FA	-	Financial Advisors
WB	-	World Bank

ABSTRACT

Decision making is the cognitive process leading to the selection of a course of action among variations. It is a reasoning process which can be rational or irrational. The availability and use of financial disclosures in decision-making is a contentious issue in Kenya and the world at large. Several researches have been carried out to that effect, but still there seems to be no answer to this question. This was evident when the Uchumi Supermarkets, one of the companies listed at the NSE, despite the release of the financial reports; investors were in the dark concerning the financial position of the super-store until its financial distress was manifested in the closure of its branches countrywide and the subsequent delisting from Nairobi Stock Exchange (NSE). This, therefore, leads to the question; of what value are financial disclosures to investors in their decision-making? The objective of the study was to establish the use of financial disclosures by institutional investors who trade at the Nairobi Stock Exchange.

To satisfy the research objective the researcher used ex-post facto research design comprising a sample of institutional investors trading at the NSE. The researcher employed a combination of stratified, convenience and simple random sampling methods to generate the required sample size of 50 respondents. Primary data was collected using semi-structured questionnaires. The research assistants dropped the questionnaires at the respondents' offices and collected them within a day or two. The target respondents were organizations' Chief Executive Officers (CEOs) and accountants. Once the pertinent data were collected, the researcher carried out analysis of the same using frequencies, mean scores, percentages, standard deviations, and U test. Where appropriate, the study results are presented in pie charts and graphs. Computer software SPSS was used to analyze the data.

The findings of the data analysis revealed that annual reports and published daily share prices were often used by investors as source of information (mean score 1.7 and 1.6) for investment decisions. Investors also use information from the managers of the companies, information from the website, advice from the stockbrokers and friends but on the least scale. The study established that delays in publication of the disclosures caused serious problem (63%). All the contents of the financial disclosures are considered important by the institutional investors (mean score < 2.1); environmental issues are however not ranked high. The findings of the study lead to the conclusion that majority of the institutional investors use financial disclosures as sources of vital information for investment decisions. It was observed that, investors have exerted little pressure to managers and prepares of information for adequate disclosures and that Kenya lacked comprehensive legal framework to ensure relevant information flow for investment decision making and investor protection. Investors do not have confidence in financial analysts and stockbrokers in the use of relevant and reliable financial information. Investment decisions are complex and require both financial and non-financial information, insight and experience.

CHAPTER ONE

1.0

INTRODUCTION

1.1.0 THE BACKGROUND

The government of Kenya has designed a strategic development plan referred to as “Kenya Vision 2030” (National Economic and Social Council of Kenya, 2006). Upon attaining this vision, it is hoped that the country shall become newly industrialized, providing high quality of life to its citizen. The vision aims, to increase economical growth to an average of 10% of Gross Domestic Product (GDP) and socially, to build a just and cohesive society in a social equitable, clean and secure environment. The strategy recognizes that investment activities are core to a nation attaining a status of industrialization. It therefore, endeavors to attract investors, both local and international ones. As a growing economy, assessing the level of investment is a positive step towards strategic formulation aimed at improving the level of economic growth (Ayieyi, 2004).

Investor confidence is crucial to such development strategy. Nations to attain an equitable and just society, its citizens have to participate actively in saving and investing activities (Nyayieka, 2007). According to Latane (1966), investment is an activity by which one foregoes present consumption for increased future output. It involves taking risk about uncertain future economic events with a hope of higher returns (Chandra, 2005). The vision cited above has its objective to increase savings to 30% of GDP by the year 2030 and to deepen financial markets. Increased savings will have value only if they lead to positive effects on the level of investment, which in turn should lead to increase wealth and a more developed economy as per Keynesian economic model (Hardwick et al, 1999). As affirmed by Dees (1996), financial markets play a key role of

transferring savings from those who have excess to those are in demand therefore it crucial that they are efficient and effective both on economical and ethical levels.

An efficient market ensures that resources are directed to the most productive and competitive sectors of the economy (Brigham, 2001). There is a link between financial deepening and broadening on one hand and economic development on the other (Mwangi, 2003). Generally, financial deepening refers to the increase of financial assets as a percentage of GDP and broadening is the increase in the number and variety of participants and financial instruments in the market (Mwangi, 2003). The rush for Initial Public Offers (IPOs) in the years 2005/2007 is an indication of the need to expand financial markets and institutions. Most of the IPOs that were issued in the last five years have been oversubscribed. However, there is also the question as to the whether expectations and eventual returns to an investor will be met or not. Poor returns and malpractices in the market will eventually drive out would be and current investor (Nyamute, 2007). This will depend on the choices made by investors and transparency and efficiency of capital and financial markets.

Relevant, reliable and timely information availability is an important ingredient for an efficient market according to some researchers (Dess, 1996). Indeed, one of the objectives of financial reporting, as stated in the framework of International Financial Reporting Standards (IFRSs) (IASB, 2007) is a tool for investors, creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash flows. Herring (1999) state that financial markets will provide better price signals and allocate resources more efficiently if participants have access to high quality information on a timely basis.

The definition of financial disclosure is well captured by Wole (2006), who quoted Glantier (1986) and defines as a deliberate release of financial information; whether numerical or qualitative, required or voluntary through formal or informational channels in order to furnish investment decision makers with financial information about the reporting company. Frost (2005) claims that financial reporting and disclosure quality is positively associated with emerging market companies' access to global capital markets. Anomalies in financial markets have been attributed to lack adequate information leading to demand for more disclosures and laws to control information transparency (Ballonoff, 1997). Anctil et al (2003) stated that Worldcom and business analysts have claimed that murky accounting practices can partly be blamed for a general loss of investor confidence that is harmful to the economy. Maclaney (2005) states that the cost of producing additional accounting information by companies is justified on the grounds that the users believe it to be useful to them. The users according to IFSB (2007) include current and future investors who are on economic level interested in the returns and risk on their wealth.

Walther (2004) contradicts the emphasis put on the importance of financial disclosures by some academicians and practitioners as stated above. The scholar maintains that there is a prevailing tendency to provide information as much as possible, which may only serve the purpose of improving confidence of a decision maker but not the quality of choices made. He goes on to argue that, there are vast quantities of information from diverse sources for making investment decisions. However, there is the unanswered question as to whether the information produced is actually being used for decision-making purpose and if it affects peoples' behavior. Just how much information does a user need and how does (s)he supplement the inherent limitation of financial reports which are prepared on monetary and historical basis? Does the demand for more regulations in order to increase quality and more information to investors have value?

Moving further in the use of information for market efficiency, some scholars have discussed its value on socio-ethical level. Though a market may be efficient on economic level, it may not be socially and ethically. Stiglitz (2003) contents that, the relation of economics and ethics in investment decisions is contentious. A free market can lead to increase in environmental and social costs and widens social disparities. He further asserts, the free hand of market forces of supply and demand has some limitations. The forces sometime do not take into account the conflicting interests of all stakeholders in both long and short term. Quality and timely information disclosures are important in mitigating some of the anomalies (Nyamute, 2007). Hence, it is important to look at the effect financial disclosures behavior of investors not only in economic growth but also on ethical level.

The availability and use of financial disclosures in Kenya as a developing economy has attracted a lot of attention. The World Bank pointed out, that there were weaknesses in corporate governance practices, lack of pressure from the users of financial statements for high-quality information and the general absence of transparency in the corporate sector, pervade the corporate financial reporting regime in Kenya (Maacfee, 2007). The researcher goes on to state that, they justified this statement with the empirical evidence of the failure of banks in the late 1990s, of which they claimed, audited financial statements did not provide early warning signals. These comments were made when Kenya had just adopted International Financial Reporting Standards (IFRSs) as from 1999. One of the major roles of the Institute of Accountants of Kenya (ICPAK) was to set standards and principles for practice of financial disclosures in Kenya (Laws of Kenya 1984). When ICPACK joined IFAC in adopting IFRSs its mandate has been more of interpretation, discipline and implementation in the areas of financial reporting. It therefore, important to carry out a study on the use of financial disclosures in Kenya and to what extend users put pressure on

preparers, providers and regulators for quality information. Investors are thus expected to participate in development and implementation of accounting standards for better financial disclosure.

Institutional investors play a major role on financial markets and their decisions influence the decisions of the rest of investors (Mugo, 1996). They hold finances from the public including pension, insurance, mutual and unit trusts that have invest wisely for profitable returns. Thus, they are interested in economic values of the underlying financial assets (Strickland et al, 2002). Institutional investors have corporate financial policies and consequently corporate values to ensure the welfare of all their stakeholders. (Grinstein et al, 2005). Jones (1972) assets, there is a growing importance of institutional investors in equity market and investment environment. More still individual investors including small investors are encourage to pool together their resources and invest on institutional level to enjoy economies of scale, diversify their risks and access specialized information and consultancy. It is for this reason that this research aims to look at how institutional investors use financial disclosure which should be a reflection of other investors. Therefore, this study is positive science which is a systematic knowledge of that describes "what is" (Zimmerman, 2003).

1.1.1 THE ROLE OF FINANCIAL DISCLOSURES IN INVESTORS DECISION-MAKING PROCESS

An efficient market according to Dees (1996), citing Adam Smith, contributes greatly to common good. An individual buying financial asset, with a promise of future cash flows in terms of dividends and capital gain, will purchase at normal profit having discounted for inherent risk; just like the seller who prefers present cash in preference to future cash flows by being guided by financial disclosures to the benefit of all. When markets are functioning well business leaders in pursuit for profits promote common

good (Dwivedi, 2006). However, the role of financial information in investment decisions has been a controversial one (Jones, 1972). The extent to which financial disclosures have been used to make decision by investors and whether such use have translated to benefit have been source of debates and researches. He further claims, modern technology has contributed to information explosion with little interpretation of its use.

Porwal (2003) states that the essential purpose of accounting is to provide information for decision - making. Making investment decisions is future based and is a continuous process that requires information constantly rather than an event. According to Elton et al (1995), investment decisions are important since they involve large amounts of funds, which influence economic growth and development in the long run. A rational decision making process entails recognition of problem, definition of alternative solutions to the problem, gathering all information about alternative, evaluating the alternatives, deciding the best alternative, implementing and validating the decision by means of information feedback (Dury, 2001). Decision making is a reasoning process which can be rational or irrational, can be based on explicit assumptions or tacit assumptions (Wikipedia, 2007). Decision making is said to be a psychological construct. One may not see the decision made but can infer from observable behaviour that a decision has been made. In the context of industrial goods marketing, there is much theory, and even more opinion, expressed about how the various decision-makers and influencers interact (Kotler, 2002).

Financial decision entails making choice whether to consume one's wealth today or invest for future consumption. It is a process that involves as to how much, for how long and what instruments and market participants to use. The consequences of the decision made are the returns received. Financial decisions on the use of available capital and economic opportunities are made

at individual level and also at institutional or corporate level. According to some researchers, financial information as disseminated through financial disclosures is an important ingredient in the whole process (Codwel, 2002). However, to some people like Slovic (1972), in some situations, social and psychological limitations control more of investment decisions than reason. It is pointed out that traders in financial instruments still trade at loss, even when the proceeds do not cover transaction costs (Porta et al, 2002). Thus, there is the need to investigate the value of financial disclosures to an investor bearing in mind both explicit and implicit costs associated to its availability and application.

An investor uses information disclosures to appraise projects and to validate his/her choices. Decision making may have adverse effects if not take carefully for example low returns on the investment portfolio have led to low returns being apportioned to retirees' accounts at NSSF which is claimed to be contributing to the poor state of retirees (Odundo, 2003). Foregoing present consumption has value only in expecting environment of expected better future returns (Mendelson, 1976). Despite the value of pension being 20% of GDP and desired to grow in future, Kenyans were not interested in contributing to National Social Security Fund, (NSSF) due poor investment decisions that led to negative returns (Odundo, 2003). Appendix D depicts poor performance of NSSF, one of the major investment instruments in Kenya.. The returns on the investments as elucidated are way below the inflation rate, which is implies that the real returns are negative. The result of such investment is an erosion of wealth rather than an increase. More still, it erodes confidence of current and potential investors in financial markets and institutions like NSSF and insurances. Decision making involves more than expected returns. One has to make choices based also how on a corporate operates in line with social and ethical values, customer satisfaction corporate social responsibilities (Dees, 1996).

Investors, particularly in public companies, are removed from the management of their assets and therefore require financial disclosure to make rational decision on how their resources are managed (Masita 1976). Several theories have been fronted to explain the importance of financial disclosures in the relation between business entities and investors (McFee, 2007). These are urgency, political, Institutional, legitimacy, signaling and stakeholders theory. Investors have entrusted management with the running of their investment hence a relationship of agent-principal exists (Jensen et al, 1976). Agency theory claims that managers (agents) do not act in the best interest of shareholders (principals), but try to further their own interests. According to the theory, the main purpose of financial reporting is to monitor the efficiency of managers. Third parties sometimes use accounting information in a competitive attempt to re-distribute resources among themselves at the expense of companies. This is referred to as political theory. Legitimacy theory states that organizations continually attempt to ensure that they are perceived as operating within the bounds and norms of their respective societies (MacFee, 2007).

Stakeholder theory posits that different stakeholder groups have different views about how an organization should conduct its affairs (MacFee, 2007). Several interest groups are affected in the position and operations of an organization. Cowdell (2002) indentifies current investors and creditors as hiving direct interest. While potential investors, would be creditors, financial analysts, stockbrokers, auditors and public as having indirect interest in the firm. Information is a major element that can be employed by the organization to manage the stakeholders in order to gain their support and approval. Institutional theory is the adaptation of an appealing institutional practice by an organization due to coercive pressures from stakeholders and competition from other organizations and group norms. As for institutional theory information is released only to the extent it supports the survival of an entity

Institutional investors have several decisions which require financial information. They have fiduciary responsibility to act in the interest of those who have entrusted them with funds (Strickland, 2002). One is that they will sale or buy/hold investments according to how they view management of business entities in relation to opportunities, their investment goals and risks involved. They may participate in firing or rewarding management if at all they have influence, or get into mergers in order to increase their influence and get out the present management. Financial disclosures are therefore important for such choices to be made. It is of interest to this study to survey as to what extend and how information is used by Kenyan investors. Information quality, use and cost have rarely been researched in developing world (Mirshkary, 2005). More still, Slovic (1972) claim, there have been little attempt to evaluate decision made by financial analysts in light of high information. Just to what extent do these analysts use information and what importance do they have on institutional investors?

Financial information is disseminated in accordance with regulations of Kenyan laws, and international body of accountants, International Federation of Accountants (IFAC) through Annual General Meetings (AGMs), periodic publications, web pages and committee meetings. While the investment and capital markets have been evolving including International Financial Reporting Standards (IFRs) the company law has not changed much. An example is that Kenyan laws do not point anywhere to IFRS nor have they been revised to cater for changes in information technology which have give rise to new avenues for financial information disseminations like webpages and emails. Institute of Certified Public Accounts of Kenya (ICPAK) has been having annual awards to encourage its members, who are mainly preparers of reports and auditors, to embrace the standards, presupposing that the standards reflect Kenyan situation/economy and the reports are useful to diverse interest groups, investors being among

them. Investors too, as interested parties to financial reports, are expected to participate in the setting and application of accounting standards. However little research has been done to the level of participation and perception by investors to the standards and the financial disclosures produced (Njoroge, 1993).

1.1.0 STATEMENT OF THE PROBLEM

The volatility of the Nairobi Stock exchange in 2001/2002 and 2005/2006 coupled with the financial distress of Uchumi Supermarket and the expulsion of one of the stock brokers from NSE have had effect on investor confidence in capital markets. Some institutional investors like pension fund managers, have had returns that are below inflation rates in the years 2002, as illustrated by appendix D (Odundo, 2003). These could be indications of poor investment decisions that need investigation. Yet the need to stimulate savings is growing by day as indicated by Retirement Benefit Authority management. Individual schemes still account for less than one per cent (1%) of retirement schemes coverage in Kenya. With less than 1,600 employers having set up occupational retirement schemes, majority of Kenyans do not belong to any retirement scheme. Occupational retirement schemes coverage is still just about 0.8% of the population while the statutory NSSF has coverage of about 6% of the Kenyan population (Nyayieka 2007).

Financial disclosures should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash flows (IFSB, 1978). Investors' information needs are mainly provided through financial disclosures within the framework of IFRSs and the local legal system. Proper use of information is a key element in decision making (Slovic, 1972). Indeed McInaney et al (2002) maintains that

accounting information must have the ability to influence; otherwise there is no point in producing it. Nyamute (2007) asserts that, the key components of disclosure requirements, accounting and auditing should be of high quality and that the market should be transparent to all stakeholders equitably.

Investors' information needs are mainly provided through financial disclosures within the framework of International Financial Reporting Standards (IFRSs) and the Kenyan legal system. There have been several citations in the past that indicated inadequate availability of information to investors for decision-making. Njoroge (1993) cites Zeff (1973) who stated that shareholders and other readers of annual reports are poorly served by the information content of the reports. Weaknesses in corporate governance practices, lack of pressure from the users of financial statements for high-quality information and the general absence of transparency in the corporate sector in Kenya erodes investor confidence (World Bank, 2001). A lot has changed since then on financial disclosure in Kenya (McFee, 2007).

Institutional investors are more informed than other investors and their decisions affect corporate financial policies and values (Grimstein et al, 2005). Strickland (2002) claims that, selling of stocks by institutional investors does influence prices below or above their true fundamental values particularly if they engage in parallel trading. Therefore, investment decisions made by institutional investors is not only important to its members but to all the financial market participants including the government and regulators. Slovic (1972) claims that professional trading, experience and availability of information have little influence on the quality of decision made needs to be explored. The current information technology is having profound global effects in the way businesses are done (Gnansler et al, 2005). New ICT systems are empowering

decision-makers to make better decisions by providing them more accurate and up-to-date financial information. Therefore, it is worth to evaluate how investors are using the disclosures in their present form. Mirshkary et al (2005) stated that, the literature on the attitudes and perceptions of users of corporate financial statements focuses largely on developed countries.

Several researches have been done on the use and value of financial disclosures in Kenya. Studies have been carried out on information content of financial reports at NSE, Omwanwa (1991), Ondigo (1996), Muriithi (2001) Onyongoh (2004), Kiprono (2004) and Oluoch (2003). The use of financial reports to predict corporate failure was surveyed by Mugo (2000) and Kogi (2003). Adam (2003) and Njoroge (1993) investigated the use of financial reports by credit agencies. The use of financial ratios in relation to stock prices was done by Omollo (1993). Finally, researches have been carried out on the level of compliance to IRFSs in Kenya, Kinya (1993) and Mugucia (2005). However, little has been researched so far about investors' use of financial information other than the use of audit report by institutional investors by Njoroge (1993). The usefulness of financial disclosures and behavior of investors have been researched a lot in developed world and very little in emerging economies (Mirshkary, 2005).

Although most researchers have emphasized the need for comprehensive disclosure for attaining different objectives, less is known about what should be disclosed to benefit user-groups in emerging economies like Kenya. Although most researchers have emphasized the need for comprehensive disclosure for attaining different objectives, less is known about how the financial disclosed benefit user-groups in emerging economies like Kenya. What then is the use of competing sources of financial disclosures by investors specifically by institutional investors in decision-making and do the users find the information to have improved by the adoption of

International Financial Reporting Standards? This study sought to answer the question: what is the use of financial disclosures to decision making by institutional investors in Kenya?

1.3 OBJECTIVE OF THE STUDY

To establish the use of financial disclosures by institutional investors who trade at the Nairobi Stock Exchange.

1.4 THE SIGNIFICANCE OF THE STUDY

Investor

The study will be of benefit to the current and future investors and other stakeholders in understanding the importance of the financial disclosures in investment decision-making. The findings of the study are important to investors who need to appreciate the value and limitations of financial disclosures. The research made an empirical investigation into the complex issue of the use of financial disclosures for making investment decisions. The survey was done from investors' perspective in far as financial information is concerned. A full understanding of human limitation will ultimately benefit the decision maker more than will the naive faith in the infallibility of his intellect. Investor's role in standard setting, preparation and use of financial disclosure for better decision making was reviewed and surveyed.

Financial Analysts and Stockbrokers

The role and transparency of financial analysts and stockbrokers was explored. There are vast quantities of information from diverse sources; however, the question as to how this information

is used is more important. Accumulated and skilled interpretation is sine qua non for accurate evaluation and decision-making. Stockbrokers and other financial analysts should be interested as how they are viewed by investors and their role in capital markets.

The Government and Capital Market Regulators

The policy makers will also gain insight on the use and limitations of financial disclosures by investors. The study emphasis the importance of timeliness, extent and reliability of information contained in the reports. Criticisms have been made on the part of the government for lack of comprehensive policies and regulations to protect investors especially against insider trading and misuse of individuals who enjoy privileged information. The value and limitation of legal and institutional protection of investors in determining the development of its financial markets from investors' point of view was surveyed.

Accountants and Accounting institutions

The Institute of Certified Public Accountants of Kenya (ICPAK) and professional accounts in general, have a special role in accounting information. The irrelevance of financial reports would point to the irrelevance of the institute and accounting as a profession. The institute as a corporate member of IFAC have involved in ensuring that financial reports are relevant both local and internationally. Financial disclosures prepared according to IFRs have to appeal to our local situations and international forum due to regional integration and cross-national investments. The role, future and investors' perception of accountants were reviewed in this study. The effects of international standards in relation to local scene and laws are also under the area of this study. It attempted to evaluate investors, the understandability of financial reporting as reported. The

curriculum and training for accountants has to be in line with changing roles of accountants as financial analysts, preparers and interpreters of financial disclosures.

Corporate directors and policy makers

This study has a lot of relevance on corporate financial disclosure decisions. Corporate financial disclosures as evaluated in literature review comes costs. The explicit costs being cost being preparation of reports, audit, and communication. The explicit cost would include the threat of communicating vital information to competitors, opportunity cost of capital used in the process of disseminating information and demands by stage holders like customers, investors upon the release of information. Therefore, if a company has to make decision of what to disclose and in what manner it has to evaluate the value of the corporate releases to investors and other stakeholders. More still the growth of Information and Communication Technology (ICT) has increase the channels of information flow. As such, this research investigated the methods disclosures by investors. The respondents were able to state how they want information reached to them and the need for timely reports.

Academicians

Finally, it will contribute to the existing body of knowledge in the area of use of financial disclosures for decision making by institutional investors at Nairobi Stock Exchange (NSE). This study is unique in emerging economies like Kenya, in the sense that it attempts to ascertain from the investors' perspective the reasons behind the lack or presence of information content in financial disclosures. Inter-disciplinary researches are inquired in order to come up with robust theories and quality practices in the area of financial disclosures and decision-making.

CHAPTER TWO

2.0

LITERATURE REVIEW

2.1 INTRODUCTION

Predictability of returns is a direct function of the predictability of macro-economic fluctuations, (Fama, 1990). Therefore, financial disclosures which are based on the past macro-economic activities should be tools for investors' predictions of future returns. Stickney (2003) points to two studies by Ou et al (2002) which showed that financial statements contain useful information relevant in determining permanent and transitory components of past earnings. Users of financial information are varied as well as their needs across culture, geography, educational and social settings. Businesses also are evolving and treat the diverse user stakeholders differently according to demands from within and the environment in which they operate. Mirshekary et al (2005), on perceptions and characteristics of users of corporate financial statements, reported in their research that financial reports are regularly used as a basis for making investments and other economic decisions. They also stated that information users and needs are different in developing countries from developed countries.

Kothari (2002) is of the view that, the mounting evidence of apparent market inefficiency documented in the financial economics and accounting literature has fueled accounting researchers' interest in fundamental analysis, valuation, and tests of market efficiency. Evidence of market inefficiency has created an entirely new area of research examining long-horizon stock-price performance following accounting events. This is in sharp contrast to the boom in short window event studies and researches on economic consequences of standard setting of the 1970s and 1980s. Future work on tests of market efficiency with respect to accounting information will

be fruitful if it recognizes that (i) deficient research design choices can create the false appearance of market inefficiency; and (ii) advocates of market inefficiency should propose robust hypotheses and tests to differentiate their behavioral-finance theories from the efficient market hypothesis that does not rely on irrational behavior.

The limitations of Efficient Market Hypothesis (EMH) are summed up by Cunningham (2002) who holds that, the efficient market hypothesis is a special case in finance. It explains only tiny fractions of observed phenomena. Perhaps its major contribution is a formal definition of an ideal market world, to which policy formulations may be directed and against which they can be measured. Indeed, it seems unlikely that the infirmities of market action ever will be so minuscule as to render the EMH more than a special case, though it may explain more in the future than it does now. However things evolve, during the evolutionary course the shackles of the EMH should be unloosed from corporate and investing culture.

The literature review is set within the paradigm of studies that have assumptions on market efficiency, information content of corporate releases and those that critic rational decision making theories. The goal is to establish robust theory and study of the place of financial disclosures in decision-making process. Established theories and past researches on the content, cost and limitations of financial disclosures are the subject of review. The content and use of financial information may be inhibited or promoted by the legal framework and capital markets process in which investors operate. Therefore, the study reviews the process of investing at NSE and the laws guiding disclosures in Kenya. That is to find the value of information intended and relied to investors bearing the costs involved like preparation of reports, audit, during AGMs and publications.

2.2 FINANCIAL DISCLOSURES

According to Porwal (2003), the users of financial statement should be in position to evaluate and assess the company's earnings performance, financial position, present and future cash flows. That full disclosure means published financial statements and related notes should include any economic information related to the accounting entity which is significant enough to affect the decision of an informed and prudent user. He goes on to say that full disclosure has several problems or issues to address as to who are the users, how much information, what should be disclosed and how should be disclosed? Investors have to interact well with companies in order to have full information that aids them to make informed decision. Issues of who is prudent user of financial information and how his/her needs are communicated and fulfilled arise from such definition.

Several researches have been carried as to what is extend, content and use of financial disclosures. Mirshkary et al (2005), maintains that several studies used ratings by investors or financial analysts as a measure of corporate disclosure quality, Adhikari et al (1992), Botosan (1997), Lang et al (1996) and Zarzeski (1996). Some studies surveyed accountants' and preparers' views, Abu-Nassar et al (1995), Chandra et al (1977) and Firth (1978). Others have focused on broader user-groups such as investors, financial analysts, managers, academics, tax officials, auditors, and regulators; the following are mentioned, Abu-Nassar et al (1996), Ngangan (2005), Nicholls (1995) and Wallace (1988). These studies examined how users of corporate annual reports view those reports. While most of these studies were conducted in developed countries, there is a growing interest in developing countries.

Amir (1996), finds earnings and book values of firms with significance levels of intangible assets tend to be excessively understated in relation to their market values. Thus because of these inherent limitation in traditional accounting information firms utilize non-accounting sources to supplement their accounting disclosures. Management disclosures can be proactive or reactive (Bauber et al, 1998). Hossain et al (2005) is of the view that managers to reduce the cost of capital they give voluntary information especially about the investment opportunity set. What then are the avenues/sources by which firms disclose immeasurable assets in according to IFRSs and liabilities and how can this be made equitable to all firms in Kenya? The current research attempted to inquire from institutional investors of their expectations of the use, limitations and extend of corporate releases.

A full disclosure includes communicating important information which may not be reflected in balance sheet and profit and loss account in short term. Lev (1999) presents evidence that increased investment in R&D and advertising had contributed to the inter-temporal decline in the information content of accounting disclosures. Gelb (2002) researched on how research and development (R&D) and advertising expenditure affects disclosures. Using analysts rating of firms disclosures of firms with high intangible assets are likely to receive higher ratings. The firms place high mandate on supplementary disclosures. Lopez (2002) found out that there is information content in components of restructuring charges like divestiture, reduction in employees and writing down of stocks. This indicates that voluntary disclosures which are unregulated and un-audited are still important means of firm's disclosures. These researches have been in done in developed world where investor's information awareness and level of competition is different. Therefore, the current was interested in investigating the level of voluntary disclosures and its value to an investor in an emerging economy like Kenya.

The level of disclosures requirements should also be evaluated from the point of view of investor demand and perception. Ayieyi (2004) carried out an exploratory research into factors individual investors consider when investing in shares at NSE. The researcher interviewed investors by visiting stock brokerage firms, foreign embassies and places frequented by foreigner investors total being 160. It was concluded that factors which were considered important were management forecasts, safety of the amount invested, and relevant items in investment decision, specific considerations, monetary and fiscal policies, industrial factors and accounting policies. Individual factors high rated were profitability, marketability of shares, present and future conditions and interest rates. Such factors will be relied mainly through communication of between investors and the companies in which they have interest. Therefore, the need for timely disclosures by companies is indicated.

Another aspect of disclosure that has had many researches is whether management will give as more information as they have especially bad news, for example, poor performance or they need regulations to do so. Suizs (2005) looked at voluntary disclosure of bad news by companies in the Netherlands. Using the game theory, they evaluated the cost of disclosure against the cost of non-disclosure. They concluded that firms always conceal information of bad news in partial disclosure and that bad news disclosure only occurs in full disclosure. Partial disclosure refers to a situation where users are not active in demanding for information and a firm operates in non-competitive environment. While full disclosure refers to investment environment that exhibits perfect market qualities.

Full disclosure is not preferred by management as illustrated by the research by Bergstresser (2005). The researchers summarize their study thus, managers appear to manipulate firm earnings through their characterizations of pension assets to capital markets and alter investment decisions to justify, and capitalize on, these manipulations. Managers are more aggressive with assumed long-term rates of return when their assumptions have a greater impact on reported earnings. Firms use higher assumed rates of return when they prepare to acquire other firms, when they issue equity, when they are near critical earnings thresholds and when their managers exercise stock options. Changes in assumed returns, in turn, influence pension funds' asset allocations. Instrumental variables analysis indicates that 25 basis point increases in assumed rates are associated with 5 percent increases in equity allocations. Stakeholders and signaling theory dictate cost of disclosure.

The quality of corporate disclosures in Kenya has been measured by the degree of compliance to accounting standards as set by ICPAK, and IFAC. ICPAK was the setting and supervision body of regulations of financial reporting until 1999 after which the body adopted IFRSs. Muguacia (2005) did a survey as to the level of compliance by companies listed on NSE to International Financial Reporting Standards in Kenya. He reviewed secondary data of 47 companies listed at NSE whose financial statement ended any month in 2004. He concluded that the overall compliance was highest as much as 81.72% by one of the big companies and 55.56% by one of the small companies. This indicated that the compliance was very low. His conclusions were in agreement with past studies by Kinyua (1993), Street et al (2001), and Elsalam et al (2002) that type of the audit had significance on the level of compliance. He also concluded that, industry factors and profitability do not have impact on compliance but company size has significance on disclosure requirements in Kenya. This study does not involve the investors at any level and

therefore it would be important to evaluate the effects of compliance on users' needs and behavior.

The study by Wole (2006) has some important insights as to the level of financial disclosures in Kenya. The objective of the study was to establish the extent to which quoted companies in Kenya voluntarily disclose more information than the mandatory requirements. The researcher used secondary data, which are financial reports of quoted companies between 1982 and 1992. Indexes were used to determine the level of disclosure. It was concluded that managers are willing to disclose information that depicts their stewardship role but less that would reflect a managers ability to predict the future. It was observed that there is a trend over time in giving more information since 1987. The study findings confirm survey by the institute of Chartered Financial Analysts (CFA) in 2004, which observes, the quality of corporate information disclosed by listed companies in the Asia-Pacific region is improving (CFA,2005). Woles' research recommended an opinion survey to be carried out from users' perspective to assess the extent to which the disclosures satisfy user needs.

A firm might fool the market at least temporally (Miller, 1985). However, investors will be informed by the unfolding events in the environment in which it operates. Survey on the requirements for full corporate disclosure as viewed by investors is still to be carried out in Kenya. The review on the meaning for disclosure brings as the question as the information content of corporate releases. The more the extensive disclosure requirements, the greater the resources required (Hankson, 2002). Hence, the review turns to the information content of corporate disclosures.

2.3 INFORMATION CONTENT OF FINANCIAL DISCLOSURES

According to Beaver et al (1968) financial information use is related to its predictive value. Information is said to have content or value if it leads to change in investor's assessment of the probability distribution of future returns. Not only should there be change in the expectation but also the change must be sufficient to induce a change in the decision-makers behavior. Such change will be reflected in the behavior of participants in financial market upon release of information in short and long run. Ball (1968) stated that the income statement is largely pre-empted by more timely sources of information. May (1971) there is significant demand for quarterly data to be used by investors. However, quarterly statements are less reliable due to residual seasonality and chance variability effects. Therefore, stating accounting data in terms of confidence level rather than simple value increases its reliability.

One research that evaluated the usefulness of financial reports from the point of view of investors rather by analysis of market reactions to release of information in Kenya is that of Njoroge (1993). The researcher carried a descriptive study on the use of auditors report in investment decisions. She interviewed 32 managers of institutional investors who trade on NSE. The study collected primary data by way of questionnaire where by she asked her interviews on the importance and use of parts of financial reports. She concluded that the auditors report is high relied on by investors and annual report is valued more to be objective. However, the auditors report plus the other parts of annual report need to be improved. This study was done when Kenya was using local standards; however, financial disclosures are now prepared and presented with the framework of IFRSs. A lot have also changed in both financial market settings and information channels. In addition, the study was limited only to the audit report, therefore the need for a comprehensive study that looks at the totality of financial disclosures.

As stated above tradition researches on the content of financial disclosures have focused more on observing changes in stock prices upon release of financial information. Such research in Kenya was done by Ondigo in 1996. Ondigo (1996) did a study on content of final reports of blue chip companies listed at NSE between years 1991 to 1994. Analyzing prices of stocks just after release of reports, he concluded that financial reports have no information content since NSE is in semi-strong Efficiency Market Hypothesis (EMH) consistent to Fama's (1970) theory. The research by Ondigo (1996) conclusion of the irrelevancy of financial end year reports is in the same view as Beaver research quoted above. However, he recommended a repeat of the study due to limitation of period under study. The research also noted that Ondigo applied the economic model that aggregated the factors under study and therefore the behavioral aspect of the investors was ignored. Other researchers have questioned the use of EMH model in evaluating the usefulness of financial reports and behavior of investors in the financial market arena.

Ryan (2003) states that there is growing body of evidence that is inconsistent with semi-strong from market efficiency that there are anomalies in the market and past returns have predictive power and evidence of post-earnings announcement. According to Stickney et al (2003) there are different views as to the benefits of analyzing a set of financial statements. One view is that stock market is in its Semi-Strong Efficient Hypothesis is efficient in reacting to published information about the firm. That the market participants react intelligently and quickly to information and so stock prices continuously reflect underlying economic values. Hence one can not using financial statements find under/over valued securities. Then he goes to say that others point to market crash in October 1987 in USA and the sharp increase in market prices as evidence that the market is not efficient. It is also pointed that empirical researches focus on average aggregate market reactions

to information which does not preclude that the market might mis-price shares of individual firms. In addition opponents note that empirical studies on capital market efficiency often generate conflicting results.

Chan et al (2005) investigated the relationship between firm size and information content of annual earnings announcements in Australia. The research design involved regression of unexpected earnings against unexpected returns. The study used secondary data collected from Australian capital markets for the period 1996 to 1997. The study concluded Earnings announcements have effect only within contextual factors. That is Australian investors react to earnings announcement only where earnings are accompanied by dividend disclosures. Investors react on the level of earnings but not to the changes in earnings. This is referred to as the headline effect. It was also established, contrary to US research that, firm size has no effect on the response of earnings announcement. This current research sort to fill the gap the value of earnings announcement to investors in Kenya from their own perspective.

Cash flows have been used in financial management to measures values and risks of returns. Therefore several researches have been carried to ascertain the value and limitations of cash flow statements as presented to investors and its role in decision-making. Porwal et al (2003) states that a cash flow statement when used in conjunction with other financial statements provides information vital in determining the entities financial structure; which include its liquidity and its ability to affect the amounts and timings of cash flows in order to adapt to changing environment. The historical cash flow is used to forecast the timing, amount and risk of future cash flows. While earnings announcement and balance sheets reports hit headlines cashflow statements, tend

to be part of the notes to financial reports. It was of interest to the present research to investigate from institutional investors of their view on the presentation of cash flow statements.

According to Stickney et al (2003) interpreting the statement of cash flow requires an understanding of two relations; that is relation between net income and cash flows from operating activities and among the net cash flows from operating, investing and financial activities. The product life cycle model in marketing research is important in understanding cash flow in relation to investment. Individual products move through 4 stages, that is introduction, growth, maturity and decline (Kotler, 2003). William et al (2006) do state that free cash flow indicates to what extend a firm is looking into the future and where it is getting the cash to exploit opportunities strategically identified. This implies that to a kin investor evaluation of cash flow statements should be part and parcel of their decision making process

Liedtka (2002) researched on the information content of Nonfinancial Performance Measures (NFPMs) in the airline industry. Using multiple measures for each construct he researched the information content of using both financial and non Financial Performance measures. The study observed, exiting empirical test however documented that NFPMs do not duplicate information already contained in inedited financial constructs. Therefore it is important when interpreting a firm's value to look beyond financial performance measures. The need to complement financial information contained in reports with other information for well informed decision. However constructs will defer from one industry to another. Comprehensive business analysis requires that one goes beyond financial measures to consider qualitative factors that are relevant for evaluating performance and prospects of a company (Chandra, 2005). These qualitative factors include

profile of a company's customer, revenue, suppliers, geographical operations, future prospects and legal and regulatory environment.

The recent study by the Institute of Certified Financial Analysts (CFA) summarizes the value of financial reports to investors (CFA, 2007). The survey was conducted over a three-week period during the last quarter of 2004. The web-based email survey was distributed to CFA Institute members and Level III CFA Program candidates in Australia, China, Hong Kong, Japan, Korea, Malaysia and Singapore. The survey also asked respondents to rate corporate and non-corporate information sources. 31% of respondents felt that buy-side (in-house) research reports are extremely important while 42% of investment professionals said that they are very important. 28% of respondents also said that data, news and information services are extremely important. This survey is very relevant to the present study. It was commented in the survey that the findings provided strong evidence that listed companies' disclosure practices and financial statement quality, together with their corporate governance practices, are critical information to the investment decision-making process.

2.4 INVESTOR BEHAVIOR IN RELATION TO FINANCIAL DISCLOSURES

There is a general consensus among accountants that one of the major purposes of external financial accounting data is to provide information to investors (Ohlson, 1972). The role of accounting in a perfect market situation is that of predicting risk and expected return of individual securities and alternative portfolio. Information is found useful in predicting and measuring risk. The problem which is considered important is whether accounting information is useful to investors. Knowledge of the sensitivity of investor to the difference in quality and accurate

announcements is a positive contribution to our understanding of investor behavior. According to Dee (1996), efficient markets rely heavily on the availability of information as well the ability of market participants to process that information.

Analysis of the limitations of investors in using information to make rational decision is important in determining the behavior of financial markets. Rioba (2003) do claim that changes in stock markets index is influenced by investor psychology and herd like behavior of investor in investment decision making. Several studies about the use of disclosure by institutional investors have been done in developed countries, Jones (1972), Lee (1980), Strickhand et al (2002) and Grinstein et al (2005). Stickland et al (2002) investigated the relationship between ownership structure and returns of firms when capital markets are volatile. This particular research concluded that, firms with relatively high level of ownership by institutional investors tend to have positively relationship in volatility of market prices. That joint uncertainties can also lead to trades that do not create value.

Study by Grimstein et al (2005) on relation of institutional holding and payout policy is of interest to this study. It emphasizes the advantage of institutional investors over the other investors in the sense that they have the capacity to influence corporate policies, access and use information and have crucial fiduciary responsibility to act in the interest of several stakeholders. They concluded in their study that institutional investors tend to have effect on dividend payout and corporate buy back. However, institutional investors use may be limited due to investors herd and speculative behavior as the following study shows. Lux (1995) researched on herd behavior, bubbles and crashes. The emergency of bubbles is explained as a self-organizing process of infection among traders leading to equilibrium prices which deviate from fundamental values. The speculators

readiness to follow the crowd depends on actual returns. Above average returns, reflect optimistic attitude that fosters the disposition to overtake others' bullish beliefs and vice versa. This economic influence makes bubbles transient phenomenon and leads to repeated fluctuations around fundamental values. This is in line with Topolo's (1991) theory of mimetic contagion where the agents try to trace out information about fundamentals from the bid and ask price of others, who may be as uninformed as they are.

Investment and institutional situations differ in developed countries from emerging economies like Kenya, and therefore it is of interest to this research to evaluate institutional investors' behavior in capital markets of developing nations. Veronkava (1980) examined institutional trader's behavior on emerging stock market, empirical evidence on Polish pension fund investors. There was evidence of substantial herding by polish pension funds manager especially in small size stocks. It was important to investigate the incidences of parallel trading by institutional investors since such activity would be a necessary condition for the argument that institutional dominance of the stock market would lead to an increased volatility. Data collected purchases and sales from financial statistics of 6 classes of investors 52 quarters ending 31 Dec 1978. He measured the variance of returns, Mean absolute Deviation of Returns, and the range to establish any parallel trading by pension funds investors. No casual relationship between institutional trading and Stock Market volatility. It is of interest to investigate the influence of institutional investors on volatility of NSE and management of companies into which they have invested.

A survey by Mugo (1999) indicated that institutional investors do use financial information in decision-making and that they play an important role in the development of capital markets. The researcher was interested in finding out factors that institutional investors consider while making

investment decision at NSE. Using questionnaires collected information on institutional investors who invested on NSE as at 31 Dec 1998. The researcher classified the institutional investors as, insurance, pension funds and mutual funds. 45 institutional investors who invest on NSE were sampled and from the study, it was identified that the following factors were considered imported, economic factors, industry and company factors, return and risk. The importance of institutional investors to capital markets and emerging economy like Kenya is stressed.

Grinblatt et al (2001) do state that investors have preference for familiar companies. Their empirical research concluded that investors tend to invest more in local firms that present reports in the language and culture that they understand and are close to them. Kweyu (2002) maintained that those who invested in stocks have a behavior of buy and hold till prices begin to decline, furthermore this prefer to invest in real estates whose market value appreciates with time and are stable. Grinblatt et al (2001) view that investors may invest even when they do not cover transaction costs. Past returns, reference prices effects, the size of holding period, capital gains, or losses, tax-loss and smoothening of consumption over the life cycle do determine investor trading. Sophisticated investors however are found not to rely heavily on past returns. Such researches on behavioral aspect of investors in use of information have not been done in Kenya. It is important to carry out investigation into behavior of investors on the market to have a complete view on the use, cost and limitation of financial disclosure.

Chandra et al (2005) assets that research in accounting has been dominated by economic models that assume users of information are rational and their goal is to maximize returns at and at minimized risk as much as they can. He supports Daniel Kahneman a psychologist and Vernon Smith experimental who warn 2002 Nobel Price in Economics that states behavioral influences in

decision-making would help explain some reactions to markets that seem irrational. This explains the differences in market prices and intrinsic value of economic items Kerlnger (F.N., 1983). Some bias on human judgment and assumptions made in traditional economic and finance research would lead to mispricing. Jason Zweig states that neurophysiologist or a neuroeconomist would say is that most of us do not even know why we do things ourselves, and we can often be in the grip of unconscious emotion or unconscious biases, feelings and inclinations that are in our mind but we have no awareness of (Walker, 2007). Such biases would include perception on conditions on the market, conditioning on past returns, limitation on use of numeric and accounting information, societal conditioning and following herd behavior. This has elicited behavioral accounting researches that have been done without formulation of theory, thus limiting the acceptability of the results (Porwal 2003).

2.5 THE ROLE OF ANALYSTS IN FINANCIAL DISCLOSURES

The review so far has established the complexity of decision making by investors. Investors whether individual or institutions do use analysis by other market participants to made decisions. This is with assumption that the intermediaries are better trained and have experience to understand information available including financial disclosures. Financial analysts use data to predict the future performance and risk. Generally analysis take two methodology referred to as chartist and factor analysis. Chartist implies drawing from historical data trends and predictions into the future. Analysis technique implies evaluating at factors affecting future performance of an investment. The financial analyst may take form of consultants, employees by corporations or media advisors. The studies discussed here concentrate around the role analysts play in investment process in particular, their use of financial information.

A study by Slovic (1972) made an inquiry into the quality of financial predictions made by analysts. The study analyzed forecasts made by financial analysts about stock price against actual return using historical data in 1944. The actual returns of the market were measured against what financial analysts had forecasted in newspapers. According to Slovic(1972) reliability on financial analysts is measured using 3 principles; these are consistency, consensus and convergence. First consistency; which implies a repeat of the same data at different times will indicate the same decision by an analyst. Consensus, on the other hand refers to the fact that, different analysts should give the same advice given the same information sets. Finally application of convergence theory refers require different financial analysts when presented with same data will give similar decisions. It was found out that 80% of all the forecasts were bullish despite the market being bearish. Therefore the researcher concluded in this case that financial analysts' predictions were negative. Slovic further assets that, length of training and experience has little effect on decisions made. Two groups of the institutional investors of the current research, namely stockbrokers and financial advisors also act as analysts. It is therefore crucial to evaluate to what extent they use financial disclosures and the value of such endeavor.

The above studies were carried out in developed economies; the focus now is on studies carried out in emerging in economies on which the current study has interest. The following study from Nigeria has similar background as the current research. Ou (2002) maintains that the power of model of earnings/book value to predict prices and future earnings would do better by associating with other non-accounting information sources. This is supported by Liedtka (2002) researched the information content of Non-Financial Performance measures in the airline industry, who combined constructs of financial and non financial performance measures in evaluating firms.

Several studies have been carried on the use of ratio derived from financial reports (Omollo, 1996). Information disclosures therefore have to involve also the forms of presentation like index ratios in newspapers that summaries the immense information available.

Some studies though not measuring the use of information by analysts have focused the use of ratio analysis. Kalui (2004) studied the level and determinants of volatility and sample of 16 public quoted companies in Kenya. He examined share prices at NSE between years 1998 and 2002 and carrying out a cross-sectional multiple regression analysis. He found out that stock price volatility was influenced negatively by payout ratio, earnings volatility and growth in assets while it was positively related to long-term debt and size. This agrees with the study of Asienwa (1992) and Ball et al (1968) who concluded that investment ratios are important to an investor since they summarize a lot of information to understandable level. Most critical ratios in predicting corporate failure were liquidity and debt-service ratios (Kiragu, 1991). There exists a positive relationship between share prices and investment performance. Financial disclosures in form of ratios help investors compare firms with different sizes.

Financial analysts are also limited by the content of information available to them. Feng (2005) examined the relationship between intangible assets, information complexity and analysts' forecast error. Using experimental research, respondents were given set of reports to analyze on firms with different level of intangible assets like research and development (R&D), brand names and diversity of innovativeness of firm's technology. They concluded that the higher the information intensity is, the greater the difficulty of forecasting the firm's future earnings. Hence it may not be easy to evaluate from historical reports a firms future cash flows due to qualitative and non-measurable information not reflected not easy to compare across firms and industries.

Thus there is a need for more specialized service of financial analysts who should be well trained to making complex evaluations.

Geographical distance between analysts on one hand and sources of information disclosures and projects they evaluate affect the quality of decisions made as reflected in the following study. Malloy (2005) did an empirical research on the effect of geography on quality of analysts. He concluded that geography has an effect on the quality of financial analysts. This brings us to the issue of location of capital market in Kenya. The NSE operations and the headquarters of many companies are situated in Nairobi while there is an aim by authorities to encourage investors through out the country. The question therefore posed is how easily are the geographically diversified investors able to access information? Another aspect raised by Malloy's research is that local analysts have an advantage over foreign analysts since the cost of getting information is cheaper and they have means of accessing insider information. Though local analysts are important from the above study there is little in the legal and training framework of analyst in Kenya. It is therefore important to investigate how they use financial disclosures.

Lui (2002) examined the determinants and the informativeness of financial analyst and concluded that risk rating can be used to predict future return volatility after controlling for other predictor of future volatility and thus analysts play an important role as providers of information about investment risk. . While Jackson (2004) on trade and reputation of sell side analysts points out that analysts face conflict of interest in advising clients since they depend on commissions received in trading. Unless security analysts develop procedures for measuring the validity of their efforts they are likely to be imposed upon by outsiders of the profession Grinblatt et al (2001). Recent scandals and controversies have focused substantial attention on the behavior of financial

analysts (Eams et al, 2006). Eams et al 2006, did a laboratory experiment to determine if cognitive process unintentionally lead to earnings forecasts bias. The results suggested that recent regulations and policy changes by Congress, the security and Exchange Commission exchange markets and brokerage firms will not totally eliminate bias in analysts' earnings forecasts. This brings up the question the effects of regulations on financial analysis and relevance of financial analysts in a growing economy like Kenya.

2.6 MARKET FAILURE AND FINANCIAL DISCLOSURES

Having discussed the use of financial disclosures the review at this level reflects on theories and studies carried out on the link between financial disclosures and capital markets. Ball (1972) asserts that in an efficient market asset prices rapidly return to equilibrium, so that market yields are affected by past data release for extremely short period only. The efficiency of capital market is defined as the speed with which equilibrium is reached after the release of a set of data. Therefore, market reactions to changes in accounting techniques appear to contrast in rather sharply with market reaction to typical income changes. Dees (1996) defines market failure not being necessarily its collapse but having two major paradigms that is; market failure from economic ideal and social ideals like investing in morally objectivable exchange, socially important goods, procedural fairness and distributive justice. He further states that an efficient market is one that results in an allocation in which no one can be made better off without making someone else worse off, referred to as Pareto optimal theory (Dwivedi, 2006)

Market failure on economic level is well captured by MacKenzie (2002) as being deviations from optimal prices in markets were responsible for failures to direct resources to their most highly valued uses. Thus, markets supposedly fail on efficiency grounds. Studies on market efficiency

have dwelt much on random walk theory by Fama (Kothari, 2003) which was later refined to Efficiency Market Hypothesis (EMH). A market failure results when the price of goods and services do not reflect the true costs of producing and consuming those goods and services. Market failure comes in two varieties. The first type occurs within the framework of neoclassical economic theory, when unregulated markets do not produce the Pareto optimal outcome (in which no agent can improve his or her position without adversely affecting at least one other agent) that the theory asserts will ensue if the requirements of perfect competition, complete information, and an absence of external effects are met. These requirements are very stringent, suggesting that market failure is likely to be quite common. Therefore any change that makes at least one person better off without making someone else worse-off is an indication of efficient market.

The second type of market failure arises because real individuals and organizations do not have the properties of the ideals of economic models (Mackenzie, 2002). People, business firms, and public institutions are bounded rational rather than completely rational, they operate under internal and external rules and procedures that necessarily result in less-than-perfect outcomes, and they respond to incentives that, while pushing them in the direction of improved economic performance, nevertheless do not guarantee optimality. Studies have been done with conflicting results on Efficiency Market Hypothesis. However the failure by an individual or a market at certain time to fully utilize financial information does not mean there is market failure. According to Dwivedi (2005) Pareto Efficiency theory or social optimum is defined as a position from which it is not possible to improve welfare of any one by any reallocation of factors or of goods and services without impairing the welfare of someone else.

Hiller et al (2002) carried out a research on market evaluation of directors' trading on London Stock Exchange (LSE). UK has regulations which ensure that directors are transparent to market participants. Directors have presumed advantage of insider information which they may use on trading in the stocks including in their own companies. They pointed out that several empirical studies have shown that directors outperform other investors when trading in their own firms. These have been brought out forcefully in the literature on asymmetric information, where agents may not take actions which are in the best interests of those for whom they are supposed to be acting. They can violate their fiduciary trust (Zhang, 2005). These are market failures, failures which led to what is viewed as unethical behavior. Using daily data on shares traded on LSE between September 1991 and May 1997 they found out a strong statistical evidence of positive correlation between directors trading and other participants trading. That corporate trade prior to an event is viewed by the market participants as a joint signal on which to make decision. Insider trading, though not illegal, has to be transparent and there is the need to research how market participants try to make decision around insider trading. It is also an opportunity to explore the development firms that disclose insider trading in Kenya.

2.7 COST AND LIMITATIONS OF FULL DISCLOSURES

According to Hossain et al (2005) the more the extensive disclosure requirements the greater the resources required to provide information. Reporting standards are costly, so they can be imposed only to the extent their use is demanded (Zimmerman et al, 1981). Slovic (1972) pointed out that modern technology advancement has led into information explosion. Ever since then development in digital information technology has had global effect and the internet has been integrated into everything else (Editorial Journal of Accounting Policy, 2005). There are explicit costs of communicating information to customers like preparing reports, audit costs, publication,

distributing reports, calling AGMS and publication. There are also the indirect cost of like relying information to competitors, the signaling cost of non-disclosure and opportunity cost of capital involved. Investors may be willing to pay extra for information about directors' trading in order to consolidate their information base (Hiller, 2002) and monitor activities of analysts and stock brokers (Jackson, 2004).

Walther (2004) is of the view that there is a common belief that increased transparency of information is desirable which may not be the case. The intuition underlying this belief is simple, as the quality of information improves, users of this information should be able to make better decisions. This intuition may not always hold; specifically, there might be costs associated with increased information transparency. In situations where individuals do not make decisions in isolation but must coordinate with others, individuals must incorporate their expectations about the beliefs of other decision makers, which lead to strategic uncertainty. Improvements in transparency can increase this strategy uncertainty. Under certain circumstances, the costs of increased information transparency arising from this increased strategic uncertainty outweigh the benefits arising from more precise information about economic fundamentals. Therefore the efficacy of increased demand in disclosures and regulations need to be surveyed against the costs involved.

Gietzman et al (2005) did a research on cost of capital, Strategic Disclosures and Accounting choices. The researches constructed timely measures of disclosure and looked at quality rather than quantity. It was established that there is a relationship of cost of capital and disclosures. Managers to reduce information asymmetry and the cost they bear, they have to increase the amount of information they voluntarily provide to shareholders (Hossain et al, 2005). Firms that

adopted aggressive accounting policies tend to attract investors and vice versa. However, the research did not survey the cost of giving more disclosures. Cost of disclosure will include cost of preparing reports, audit, disclosure costs and implicit costs of communicating information to competitors. Investors may have to incur extra cost of involving experts in interpreting information (Dhaliwal et al, 2005).

Studies have shown that distance between investors and companies in which they have interest have an effect on the cost and quality of information flow. Malloy (2005) did research on the relationship between geographical proximity and performance of analysts operating at London Stock Exchange. The researcher analyzed equity trading between 1994 and 2001. The study concluded that geographical proximity is inversely related to the cost the cost of information acquisition. Proximity to firms provides access to private information by investors. Factors such as culture and language are also limiting to the usability of accounting information. Institutional investors in Kenya are spread over the country; they also include foreign investors. No studies have been done to evaluate the effect of distance on investors, and financial advisors' accessibility and use of financial information. Quality of analysts decisions in relation to financial disclosure have not been researched in Kenya though they serve a fundamental role in capital markets.

2.8 INVESTMENT PROCESS ON STOCK EXCHANGE

Capital market provides a good environment in which one can observe investment decisions in relation to information and the results gotten. Investors are easily identifiable through market regulators' records. Kenya has only one capital market referred to Nairobi Stock Exchange (NSE). The NSE is one of the oldest in Africa (Kariithi, 2001). One of the most important functions of a stock market is to promote a

culture of saving by providing a way by which savers can earn a return on their investments, (NSE 2002a, p.5). NSE therefore has become important as an avenue for investors to trade in capital market. It is important to understand the process on investing at stock exchange to be able to identify where information content of financial disclosures is lost or enhanced.

NSE obtained its formal legal framework in 1954 but informal trading had been going on ever since 1920s where business was based on gentleman's agreement and was a sideline business conducted by auctioneers, estate agents and lawyers who met in bars/hotels. The first brokerage firm was Francis Drummons who started in 1951. 1954 NSE was opened as a voluntary association of stockbrokers registered under Societies Act. The stockbrokers have grown to 19 with a call to allow more to allow fair competition for efficiency. Questions have risen to whether the market should have independent regulators. A conflict of interest also exists where the brokerage firms deal directly for themselves and on behalf of their clients. The current study is interested in establishing from the point of view of investors how this set up enhances the use of information and assures fairness and efficiency as far as financial disclosures are concerned.

During the year 2001 NSE was categorized into 4 segments to reflect the diverse risks in the underlying assets, namely Main Investment Segment (MIMS) which comprises, Agriculture, Commercial and Service Sector, and Industry, then Alternative Investment Market Segment (AIMS), Fixed Income Securities Market Segment and Futures (FIMS) and Option Market Segment (FOMS). Trading on NSE has changed over the years especially with the introduction of Central Depository System, (CDS) in 2000. This research would like to look at how these changes have contributed to quality of decision making by an investor. More information can be gotten through the websites of NSE and CMA on daily basis. Stockbrokers have increased to 18 though the though

investors have lost through some of the unstable brokers who have gone been foreclosed. It is important that we evaluate the improvement in flow of information on the basis of benefit-cost and the overall market efficiency. However, the activity of NSE is still centralized in Nairobi and fact that is limiting.

The role of stockbrokers needs to be evaluated. The place of stockbrokers can be understood on the basis of agency relationship (Jensen et al, 1976). As brokers, they have fiduciary responsibility of acting in the interest on an investor. However, there seem to be conflict in roles since they are members of NSE and may invest on their own and give advice to investors. This brings in the issue of insider trading and serving self-interests instead of their client (Zhang, 2005). In addition, information may loss its content value due to the process an investor has to go through before his decision is made and evaluated. Another conflict of interest arise where brokers have either to advice clients according to information available and loss commission or encourages clients to buy or sell in order to profit at the expense of clients (Jackson, 2004). The current study therefore surveyed the view of institutional investors the value of stockbrokers and the processes at NSE in the issue of financial disclosures in decision-making.

2.9 EFFECT OF REGULATIONS ON DISCLOSURES IN KENYA

Porta et al (2002) claims legal protection of investor in a country is an important determinant of the development of its financial market. When their rights are protected, outside investors are willing to pay more for financial assets such as equity and bonds. Better shareholders' protection is empirically associated with higher valuation of corporate assets. Rules and regulations on capital markets are designed to ensure that the investor has timely, sufficient and accurate information to make informed investment decision (Ntalami, 2005). As pointed out self-regulation may not be enough to reduce excess

of market failure though it is the most desired. Hence it is important to look at regulations, see how they have fostered the use of financial disclosure, and reduce market anomalies. It has been established that firms increasingly cross-list towards markets with higher disclosure standards and powers to attract investors who would be reluctant to invest. (Lubberrick et al, 2005).

Well protected investors are willing to pay more for securities and firms find easy financing projects. Better shareholders protection is empirically associated with higher valuation of corporate assets (Porta et al 2002). Investor protection means policies and mechanism that shield the investor against misleading manipulative or fraudulent practices, customer front running and misuse of client assets. MacFee (2007) notes, the reluctance of company directors to disclose more than the minimum information required by law, along with the growing disquiet to the usefulness of the information contained in financial accounts led to extension of disclosures required in UK in the Company Acts 1948 and 1989 (Glautier, 2001). The standardization may not be enough to achieve comparability without harmonization of incentives (Lara, 2005).

The Kenya Company Act was the sole only regulations many years in Kenya (from 1959 to 1983), stipulating as to the content of financial statements of companies generally (McFee, 2007). These regulations were the precursors of IFRSs, but remain in force alongside IFRSs. They could be regarded as the foundation on which financial disclosure in Kenya was built, by creating a cultural environment in which compliance with a regulatory system became the norm. The Kenya Companies Act Cap 486 requires all companies incorporated in Kenya to keep books of accounts in the English language. The books are required to give a true and fair view of the state of the company's affairs, (Ogola 2006). At least once in each calendar year, a Profit and Loss Account for the year (s.148), a Balance Sheet as at the end of the year (s.148), a Directors' Report (s. 157) and an auditors' report (s.156), must be laid before

the members of the company in an annual general meeting (AGM). The Profit and Loss Account must give a true and fair view of the profit or loss for the year (s.149). The Balance Sheet must give a true and fair view of the financial position of the company as at the year-end (s.149), and must be signed by two directors on behalf of the Board of Directors, or in the case of a bank, by the secretary or manager and three directors (s.155). The signing of the balance sheet signifies the board's approval of the accounts (s. 156.2).

Every company must hold an AGM in each calendar year; not more than 15 months can elapse between one AGM and the next; notice calling this meeting must specify that it is the AGM and be given in writing, together with (and free of charge), a copy of the accounts, the directors' report and the auditors' report (s. 158), at least 21 days before the meeting, to every member and every debenture holder of the company (ss.131 & 133). The AGM must be held within 9 months of the company's year-end (s. 148). Therefore what is the role of investors at the AGM and just how much of information disseminated during these meetings do investors find useful? No researches have been carried out to establish the information content of AGMs.

The profit and loss account and the balance sheet must comply with the requirements of the Sixth Schedule to the Companies Act (s. 149). The Directors' report must deal with the company's state of affairs, must indicate any change in the nature of the business (under IAS 1 paragraph 102 (b) a description of the nature of the company's operations and its principal activities must be disclosed), must reveal the dividend proposed by the directors, and the amount which they propose to transfer to reserves (s.157). The Auditors' report must state expressly whether the auditors have obtained all the information and explanations which to their knowledge and belief were necessary for the purposes of their audit; whether proper books of account have been kept; whether the company's profit and loss account and balance

sheet are in agreement with the books; and whether the profit and loss account and the balance sheet give the information required by the Companies Act in the manner required by the Act, and give a true and fair view of the profit or loss for the year and the financial position as at the year end. In addition to these requirements, all auditors are required by ICPAK to state whether, in their opinion, the financial statements of the company comply with IFRSs (McFee, 2007).

However the Act does not talk define some of the concepts used like true, fair, objective, and profit and loss. Neither does it define the use of financial reports by an investor. The Act in itself does not point nor seem to recognize the existence of IFRSs. Therefore in order to give regulatory powers to the principles and definitions stipulated in IFRSs there is the need to updated the company law and strengthen the powers of capital market authority. Ever since 1999 when ICPAK adopted IFRSs it has concentrated more on the enforcement roll together with NSE and CMA. These regulatory bodies are expected to pay more attention on monitoring role on behalf of investors and the public (Lugalia, 2007). According to Ntalami (2007), companies must show high standards of ethics to remain competitive. These statements assume existence of sufficient laws and standards and disclosure on the implementation. The three regulators to ensure high standard of disclosures started an award for a company that has the best practices.

The Institute of Certified Public Accountants of Kenya (ICPAK) has required, since early 2002, the inclusion of a statement of directors' responsibilities, (ICPAK 2002). The assumption here is that companies in complying with IFRs do give adequate disclosure for use by user groups in Kenya. The legal system then would be simplified by stating that companies need to comply with IFRs. However the questions would be what is the level of participation by local use groups in order to ensure that interests of developing country like

Kenya are taken into account. Institutional investors have also industry laws which govern their operations. For example pension companies are not allowed to invest more than 30% in real estates and 70% in stocks.

Medvedeva et al (2000), citing the Russia capital Market case states that there is problem of lack of efficient statutory system for information disclosures. Relevant provisions are found in different regulatory acts which at a time may be contradictory making it difficult to enforce. However there have been criticisms against government intervention in Market failure. Brief (1975) maintains that regulation and legislation do not seem to have produced many of the improvements in practice which were expected in defining the contents and meaning of accountants responsibility (MacKenzie, 2002). To point to market imperfections as proof of the need for government intervention, he said, is to indulge in the "Nirvana Fallacy," whereby we compare allegedly imperfect real markets to imaginary governmental institutions that lack even the smallest imperfection. Now, a vast literature exists on the imperfections of government in allocating resources. Yet, many economists still recommend government intervention to correct market failures, often without also considering the possibility of government failure (MacKenzie, 2002).

2.10 SUMMARY

The literature under review can be summarized by two approaches to accounting theory as stated by Sorter (1969), the value theory and events theory. The value theory or user theory assumes that users' needs are known and accounting theory can sufficiently develop optimal input values useful in decision-making. The value theory tends to support harmonization, aggregation and oneness in financial disclosures. While according to Sorter, events theory suggests that the purpose of accounting is to provide information about relevant economic events that might be useful in a variety of possible decision models. Financial disclosures are removed from direct decision making but provide scenarios from which one can draw inputs for decision

making including valuation of assets and entities. It has been appreciated that local institutional and local investors are leveraged as far as information use is concerned (Ivkovic, 2005). Therefore, a gap exists to carry out research on the role of information disclosures in Kenya in relation to investor needs. A research that complements recent ones that have used market performances and movements to evaluate the use of financial disclosures will fill this gap. A primary survey on the information needs, characteristics, and the role of institutional investors in Kenya was deemed appropriate.

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 RESEARCH DESIGN

The research adopted positive science methodology in approach. The question was not whether investors reacted to financial disclosures but rather why they did or did not look forward or to them. (Beaver, 1968). The study was interested on the value and usability of reports and other corporate releases in the investment decision-making process. It aimed to systematically describe the situation as it is (Zimmerman, 1980). Several assumptions have to be made. In this case those financial disclosures are available and users groups do exist. This study is a sociological one and most of such studies embrace ex-post facto designs (Kothari, 1990). This attempted to identify variables that exist in given situation and at times to describe the casual or functional relationship that exists among or between variables (Frannkfort-Nachmias et al, 2003). It is descriptive in nature: the researcher selected and collected data rather than manipulated the independent variables. Inference about the relationships among the variables was made, without direct intervention from the variables of independent and dependent variables (Kerlinger, 1983).

The study was interested in the respondents who have been in operations for more 5 years or more to help understand the effect of changes on use of financial disclosures over the years. The use of financial disclosures formed the factors under study. These factors were scaled and the scores analyzed in chapter 4. The questionnaires are in two parts one structure but short and the other structured to enable comparisons made on the user groups under study. The first part is introduction and open questions that aim to collective qualitative information about the respondent characteristics. The second part is structured questions which form the respondents were required to tick

and they aim was to collect views on the use of financial disclosures. The questionnaires were distributed and collected within two weeks in the month of November 2007. The research designed is similar to one used by Mirshekary (2005) who carried out survey on the perception of the use of financial statements by several users groups in Iran in 1997 including institutional investors.

3.2 POPULATION

The study collected data from institutional investors who been trading at NSE for the period June 2002 to June 2007 and are currently in operation. There are several institutional investors that trade at NSE; however, due to limitation of time and the fact that there is relationship in terms of ownership and operations amongst the institutional investors, the study concentrated on fund managers, insurance companies, unit trusts, stock brokers and financial advisors. The researcher has collected lists from Association of Insurers of Kenya (2007), NSE and Retirement Benefits Authority (RBA). There are 42 insurance companies, 28 unit trusts that are controlled by 9 companies, 19 stock brokers of which 18 are operating, 20 financial advisors and 15 investment fund managers whose role is to make investment decisions on behave of pension schemes including NSSF. All the respondent companies have headquarters and branches in Nairobi through they execute their investment decision though some also have branches countrywide. The list of units of study is given in appendix E.

The total population was 125 units; these are institutional investors who are based in Nairobi as at 30th November 2007. However the eligible number was 103 companies since the 28 units trusts are controlled by 9 companies and therefore the respondents reduced to that number, while of the stock brokers listed one is under statutory management and another was accepted this year, 2007

being not eligible for the study. The eligible companies for selected for this study were companies that have operated for more than five years in order to express their view of changes on the accounting scene. The five-year period is in line with Fama (1970), Ondigo (1996), Kweyu (2002) and Suizs (2005).

3.3 SAMPLE

Due to limitation of time and resources a sample size of 50 units was chosen based on Snedecor (1989) concept on sampling. According to Snedecor, it is often hard to establish sample size in relation to accuracy since factors like mean and standard deviation of the population is not known before the research commences. Hence an element of arbitrariness may be the in the answer finally give. The 50 units therefore were arrived at considering the research assistants available, distance to be covered and time limitations. 50 units are more than the minimum required to make meaningful conclusions. The sample size was drawn from institutional investors who deal directly in ordinary share trading at NSE and are based in Nairobi as stated in the population above. This first level sampling was thus convenient sampling to suit the limitation of the researcher as cited above; based on geographical location of the units.

The second level sample was done where the units under study were classified in five groups as defined by CMA and listed in Appendix E. At this level five classes of institutional investors were identified; namely fund managers, insurance companies, unit trusts, stockbrokers and financial advisors. A sample frame was drawn from data provided by Capital Market Authority (CMA), NSE, Association of Insurances of Kenya (ASK), and Retirement Benefit Authority (RBA) as at 30th November 2007. The groups have been classified by market regulators in

relation of their roles at NSE. Therefore for purpose of comparison the researcher they were viewed not to be homogenous in the way they use financial information.

Then the final level sampling was done in each subgroup to determine the units for the survey. This was done by way of simple random to avoid biases in the results. The number of units in each subgroup was determined in proportion to the total sample size of 50 units required and the total number of units in each class of the total population of 125 units. The list of possible respondents in appendix E was used to determine the sample units in each group. The researcher numbered the units in each group in nominal order. The numbers were written on pieces of paper. Then the pieces of paper were put in five baskets according to the subgroup they belonged. Then by way of random, the research assistants were asked to pick the assigned numbers. There were five research assistants who were asked to pick a number from the baskets in turns until the required number of units in each group was reached. The results are illustrated in Table 3.1 below.

Table 3.1 Sample Size

Class	Population	Illegible	Sample
Insurance Co	42	42	20
Unit Trusts	28	9	4
Fund Managers	15	15	8
Stock Brokers	20	17	8
Investment Advisors	20	20	10
Overall total	125	103	50

3.4 DATA COLLECTION

According to Ryan et al (2002), decision-usefulness approach in financial accounting uses two type of empirical study; behavioral accounting research (BAR) and market based research. This study therefore is BAR and thus uses survey as research design to explore the value of financial disclosures to institutional investors. The main data gathering instruments were questionnaires and secondary data collection from CMA, NSE, ASK, and RBA. Lists of institutional investors under study were collected and used to select the companies to be visited. Relevant questionnaires on the use financial disclosures and elements of financial information were constructed and are contained in appendixes E to J. 50 questionnaires were distributed by the researcher and the assistants around Nairobi. Each research assistant visited 10 respondents in two days. The assistants were instructed on two methods of collecting the filled questionnaires. That is, the respondents were given chances to fill in the questionnaires and give the research assistant or the questionnaires were to be collected within a week.

Interview respondents selected were individuals who use financial disclosures in investment institutions while investing at NSE. The sample targeted for interview, due to limitation of time, was 50 respondents that included insurance, mutual, investment fund managers, company managers, financial managers, and buy-side analysts,. The targeted individuals were required to fill in the questionnaires were managers and directors who have the responsibility of making decisions to buy and or sell shares. They included financial directors and offices, Chief Executive officers and accountants. However in some companies customer care representatives ended up filling in the questionnaires which were then considered ineligibility to the study. 50 questionnaires were be distributed by six research assistants.

The respondents were required to fill in or tick questionnaires which are in two parts. The first part was contained the introduction and open-ended questions. This served the purpose of creating communication environment between the respondent at the research and gave the respondent opportunity to state in length how they view financial disclosures. This was followed by a set of structured questions. The structured questions required either one to tick or rank items under survey.

Table 3.2 Interview Respondents

Persons	Population	Illegible	Sample
Managers of:			
Insurance Co.	42	42	20
Unit Trusts	28	9	4
Fund Manager	15	15	8
Analysts: buy side:			
Stock Brokers	20	17	8
Financial Analysts	20	20	10
Overall total	125	103	50

User-groups under study:

1. Unit Trusts (UT)

2. Financial Advisors (FA)

3. Insurance Companies (IC)

4. Stock Brokers (SB)

5. Fund Managers (FM)

3.5 DATA ANALYSIS

The data collected was analyzed using descriptive statistics. Deceptive statistics according to Kerlinger (1973) gives ways and means of interpreting data condense information and gives numerical and graphical techniques of presenting, organizing, analyzing and making conclusions. The data collected was analyzed by the use of SPSS programme computer software. The results were presented as frequencies and percentages in form of tables, charts, graphs and pier charts. Other descriptive statistical tools used were mean and standard deviations. According to Kothari (2004), factor analysis is by far the most often used multivariate technique of research studies, especially pertaining to social and behavioral sciences. It is a technique used when there is a systematic interdependence amongst a set of observed or manifest variables and the researcher is interested in finding out something more fundamental or latent which creates this commonality.

There are several types of factor analysis but the one used here is called Factor scores. Factor scores represents the degree to which each respondent gets high scores on the group of items that load high on each factor. This research aimed to survey factors which indicate use or none use of financial disclosures by institutional investors at NSE. The collected data was tested by Kendall's Coefficient of Concordance any significant differences between the user groups. Coefficient of Concordance analysis of ranks is an extremely useful test deciding whether k independent samples originate from different populations, Kingo'riah (2003). In the computation of this statistic each of the N observations are replaced by ranks starting from the smallest having rank one to the biggest having rank xi. Then the ranks in each column are added up and compared to each other. If the column sums of the ranks are so significantly different they are likely not to have come from the same population. This test was used by Mirshekary (2005) in similar study to determine the differences in use groups of financial information.

CHAPTER FOUR

There were significant differences among user-groups differences on the use of financial disclosures. The study was interested in establishing whether there were similarities on how users of financial disclosures rank the importance of elements of contained in financial statements, the principal limitations of financial statements and the major sources of information for investment decision making. Mann-Whitney U will be carried out to test the level of consensus among the groups. According to Kinego'riah (2003), A Man-U test is a non-parametric test designed to determine whether two random samples have been drawn from the same or from different populations. It is based from the notion that if two independent samples have been drawn from the same population the average of the ranks of the scores R_{xi} and R_{yi} should be approximately the same. The user groups will be paired and comparison drawn on the consensus of the use of financial disclosures. This series of tests are only intended to provide an overall picture of similarities and differences.

	Target Users	Intermediate Users	Advanced Users
Importance of Disc.	79	11	11
Cost Benefit	7	8	100
Cost Allocation	7	8	13
Overall			
Small Enterprise	10	8	28
Corporate Analysis	8	8	25
	53	31	74

Source: (2007)

These data were used to establish the level of consensus among the user groups on the use of financial disclosures.

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

In this chapter data pertaining to the establishment of the use of financial disclosures by institutional investors who trade at the NSE have analyzed and interpreted. A total of 50 institutional investors trading at the NSE were sampled. The sample was in cluster of 5 groups as distinguished by NSE authorities. Every institution was given a questionnaire out of which 37 institutions responded by completing and returning the questionnaire. This gave a response rate of 74%.

Table 4:1 Response Rate

Persons	Target Units	Response Units	Response Rate (%)
Managers of:			
Insurance Co.	20	13	65
Unit Trusts	4	4	100
Fund Managers	8	6	75
Buy Side Analysts:			
Stock Brokers	9	8	89
Financial Analysts	9	6	67
Overall total	50	37	74

Source: Researcher (2007)

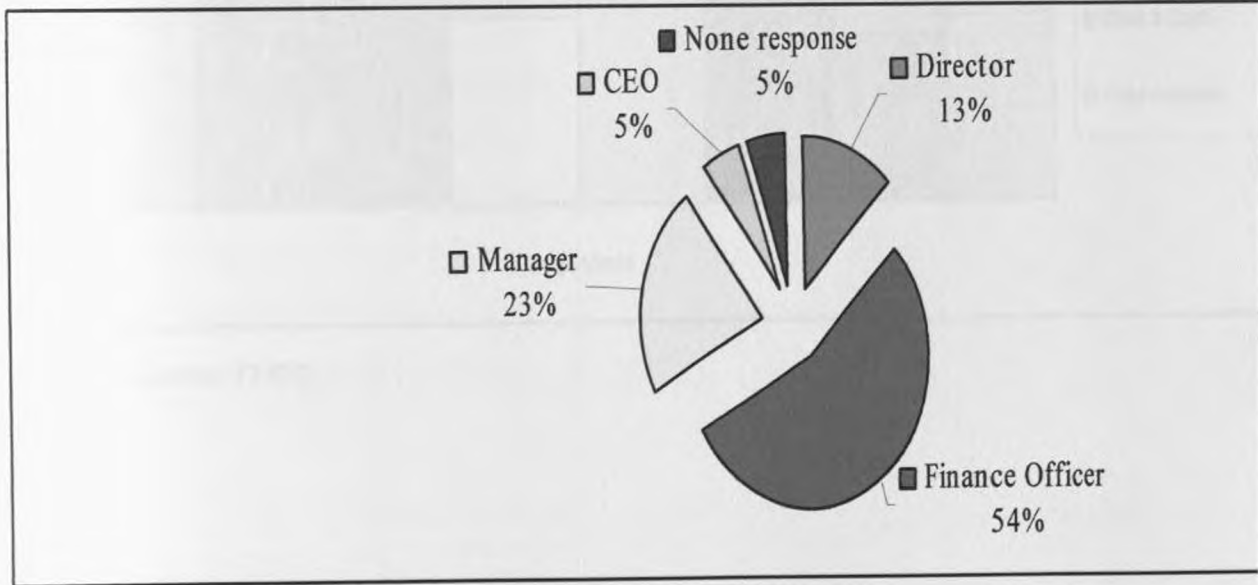
The collected data were edited and coded. Data analysis was done using frequencies; percentages mean scores and standard deviations.

4.2 GENERAL INFORMATION ON THE RESPONDENTS

The respondents were first asked to provide information on: their positions, the user groups which they belonged to, length of time have been investing at NSE, level of education, what motivated them to invest in the stocks, and to state whether financial statements have weaknesses. (Appendix B). It was apparent from the study that majority of the respondents were finance officers (54%). Managers were twenty three percent, CEO five percent and directors thirteen percent. The five percent none-response represents questionnaires that were filled by respondents other than the targeted under the survey. Figure 4.2 shows the findings of the analysis. The study also established that majority of the respondents were graduates (69%).

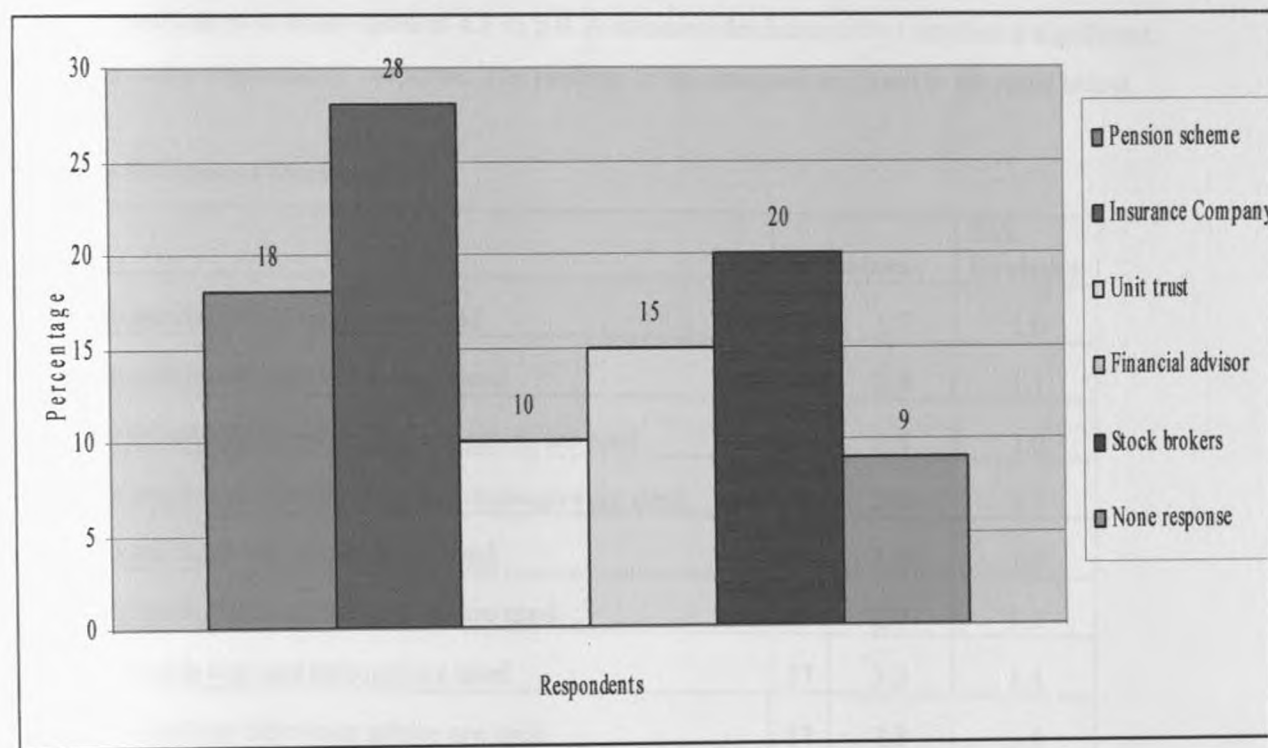
Figure 4.2 Distribution of respondents by positions

Source: Researcher (2007)



The respondents were analyzed under subgroup they belonged. The study established that majority of respondent companies have invested at the NSE for more that five years (59%). They all expressed confidence in investing at NSE though they agreed that they are not investing maximally as per their expectations. As shown in figure 4.3. 26 percent of the respondents were from insurance companies and 20 percent were from the stock broking firms.

Figure 4.3 Respondents' Industry.



Source: Researcher (2007)

4.3 EXTENT TO WHICH SOURCE OF INFORMATION IS USED

The study sought to establish the extent to which the listed sources of information were used. This was measured by a five-point Likert scale, where respondents were required to indicate the extent to which they use the listed sources of information. The range was from ‘always,’ (1), to ‘never’ (5). The score of ‘1’ has been taken to represent ‘always’ and to be equivalent to mean score of 0 to 1.0 on the Likert. The scores ‘2’ have been taken to represent ‘usually’ and to be equivalent to a mean score of 1.1 to 2.0. The scores ‘3’, represent ‘sometimes’ and taken to be equivalent to mean score of 2.1 to 3.0. The scores ‘4’ represent ‘seldom’ and taken to be equivalent to mean score of 3.1 to 4.0. And the scores ‘5’ have been taken to represent ‘never’ and to be equivalent to mean score of 4.1 to 5.0. A standard deviation of > 1 implies a significant difference in the respondents’ response. The findings of the analysis are listed in the table below.

Table 4.4 Sources of Disclosure

	n	Mean	Std. Deviation
Extent to which annual reports are used	37	1.7	1.0
Extent to which oral information are used	37	2.9	1.1
Extent to which published daily share prices are used	37	1.6	1.0
Extent to which communications with managers are used	37	2.8	1.2
Extent to which AGM meetings are used	37	3.0	1.3
Extent to which website information are used	37	2.7	1.2
Extent to which tips and rumours are used	37	3.2	1.4
Extent to which stockbrokers advice are used	37	2.3	1.1
Extent to which advice of friends and acquaintances are used	37	2.9	1.0

Source: Researcher (2007)

The results of the analysis show that annual reports and published daily share prices were used often as sources of information by the investors, (mean scores of 1.7 and 1.6 respectively). The analysis established that oral information, communication with managers, website information, stockbrokers’ advice and advice of friends and acquaintances were sometimes used by the

institutional investors. The information from the AGM meetings and tips and rumors were seldom used.

4.4 RANKING SOURCES OF FINANCIAL DISCLOSURES

The respondents were asked to rank the listed sources and elements of financial disclosures. A five-point Likert scale was used. The range was from ‘irrelevant’ (1), to ‘absolute’ (5). The score of ‘1’ has been taken to represent ‘irrelevant’ and to be equivalent to mean score of 0 to 1.0 on the Likert. The scores ‘2’ have been taken to represent ‘unimportant’ and to be equivalent to a mean score of 1.1 to 2.0. The scores ‘3’, represent ‘useful’ and taken to be equivalent to mean score of 2.1 to 3.0. The scores ‘4’ represent ‘important’ and taken to be equivalent to mean score of 3.1 to 4.0. And the scores ‘5’ have been taken to represent ‘absolute’ and to be equivalent to mean score of 4.1 to 5.0. A standard deviation of > 1 implies a significant difference in the respondents’ response. The findings of the analysis are presented in table 4.5

Table 4.5 Ranking items of financial disclosures

	n	Mean	Std. Deviation
How change in assets in financial statement are ranked	39	3.9	0.7
How capital expenditures in financial statement are ranked	39	4.0	0.6
How accumulated depreciation in financial statement are ranked	39	3.3	0.8
How total revenue and breakdown by source in financial statement are ranked	39	4.3	0.8
How breakdown of operating income and extraordinary items in financial statement are ranked	39	4.0	1.1
How depreciation and amortization expenses in financial statement are ranked	39	3.3	0.9
How number of shareholders and those holding more than 5% in financial statement are ranked	39	3.6	1.2
How employee disclosure in financial statement are ranked	38	2.9	1.3
How comparative cash flow statements for 5 years in financial statement are ranked	38	3.9	0.9

How comparative cash flow financial statement are ranked	37	3.9	0.8
How statements for 10 years in financial statement are ranked	37	2.8	1.0
How number of shares held by directors and government in financial statement are ranked	38	3.6	1.1
How number of employees and names of top executives in financial statement are ranked	38	3.0	1.3
How breakdown of sales by major products and customers financial statement are ranked	38	3.6	1.0
How production capacity and actual output in financial statement are ranked	38	3.8	1.0
How comparative net sales for 5 years in financial statement are ranked	38	3.5	1.1
How declaration by directors of veracity of the financial statements in financial statement are ranked	38	3.6	1.1
How description of major products and services including information on potentially new products in financial statement are ranked	38	3.9	1.0

Source: Researcher (2007)

It was apparent from the findings of the analysis that no item of the financial statement was ranked as irrelevant or unimportant. This is an indication that the investors regard all parts of the financial statements as important. The analysis revealed that on the number of shares held by directors and government and employee disclosure in the financial statements were ranked as useful, (mean score 2.9 and 2.8 respectively), while the rest of the parts were ranked important.

4.5 LIMITATIONS TO USE OF DISCLOSURES BY COMPANIES

The study sought to establish how the limitations to use of disclosures by companies the investor have invested in, were ranked. The rankings were from most serious (1) to least serious (8). The table below shows the results of the analysis.

Table 4.6: Limitations to use of disclosures by companies

	1- Most serious %	2 %	3 %	4 %	5 %	6 %	7 %	8 - Least serious %
How delay in publishing annual reports is ranked	23	20	20	8	0	1	1	5
How lack of comprehensive accounting is ranked	1	20	20	10	1	5	13	5

How lack of trust in information is ranked	16	20	8	10	8	1	5	8
How lack of access is ranked	8	25	10	13	8	1	5	10
How lack of adequate information is ranked	5	20	23	8	18	1	1	0
How lack of professional accountants is ranked	0	0	10	10	18	18	0	10
How lack of recorded accounting standards are ranked	8	1	0	13	13	18	10	1
How access to annual reports are ranked	5	33	8	18	1	0	5	5

Source: Researcher (2007)

The results of the analysis revealed that ranked serious were the limitations due to delays in publishing of the annual reports (63%), lack of comprehensive accounting (41%), lack of trust in information (44%), lack of access (43%), lack of adequate information (48%) and access to annual reports (46%). The analysis also revealed that ranked least serious were limitations due to lack of professional accounts (46%) and lack of recorded accounting standards (42%)

4.6 ETHICAL AND BEHAVIORAL ISSUES

The respondents were asked to state how they viewed various factors in the companies they invested in their funds. A five-point Likert scale was used. The range was from 'irrelevant' (1), to 'absolute' (5). The findings of the analysis are represented in the table 4.7.

Table 4.7: Ethical and Behavioral Issues

	N	Mean	Std. Deviation
View disclosure on environment	35	2.7	1.2
View transparency of dealing by directors/managers	36	3.9	1.0
View unfair competition	36	3.4	1.2
View changes in dividends	36	4.0	0.7
View changes in directors	36	4.0	0.6

View companies choice of product	36	3.7	0.9
View community involvement	36	3.4	1.0
View quality of products	36	3.8	0.7
View customer satisfaction	35	4.2	0.9

Source: Researcher (2007)

From the results of the analysis it is clear that none of the listed issues were regarded as irrelevant or unimportant as there is no mean score of less than 2.1. Only disclosure on environment is regarded as useful (mean score 2.7), the rest of the items are viewed as at least important.

CHAPTER FIVE

5.0 CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

5.1 DISCUSSION AND CONCLUSIONS

The overall purpose of the study was to establish the use of financial disclosures for decision making by investors in Kenya: the case of institutional investors at NSE. Several studies have been done on information content and compliance of financial information Mirshkary et al (2005). According to Mirshkary et al above little has been researched as to the use of financial disclosures. The present research therefore went out to evaluate the use of financial disclosures from one of the user groups; the institutional investors. Institutional investors trading or having advisory role at NSE were targeted. The main subgroups chosen were pension fund managers, unit trusts, insurance companies, investment advisors and stockbrokers. Out of the 50 institutional investors that were sampled, 37 responded; yielding a response rate of 78%.

The study established that annual reports and published daily share prices were the most used sources of information by the investors, (mean scores of 1.7 and 1.6 respectively). The study also established that other sources of information as financial disclosures by the investors included oral information, communication with managers, website information, stockbrokers' advice and advice of friends and acquaintances. But these were only used occasionally. The least used source of information for financial disclosures included the AGM meetings, tips, and rumours. Investors regarded none of the parts of the financial statements as neither irrelevant nor unimportant. All the parts of financial statement are ranked important by the investors. Highly ranked items included, total revenue and

breakdown by source, capital expenditures and breakdown of operating income and extraordinary items. However, the number of shares held by directors and government and employee disclosure in the financial statements though ranked as useful were bottom in the list. The mean score were 2.9 and 2.8 respectively.

The respondents, on the limitations to the use of the disclosure by companies, ranked the delays in publishing of the annual reports as most serious. The other limitation was lack of adequate information which ranked 48 percent. However, the study established that lack of professional accountants was not a serious limitation to the disclosures by companies. Also considered least serious was the lack of recorded accounting standards. Investors need more information and as fast as it can be on dealings by directors, forecasts and daily changes in prices of their investment. Financial analysts, accountants should develop means of providing timely information. However there is the issue of quality of advice given by financial analysts and the cost users are prepared to pay for the acquisition of such knowledge. Just how accurate are the forecast given in the media by financial analysts and prepares of financial disclosures by companies?

The researcher established that all the items on ethical/behavioral issues are considered important by the investors. The widely viewed as most important included customer satisfaction (mean score 4.2), changes in dividends, and changes in directors (mean score 4.0). Environmental issues are not ranked high achieving a mean score of 3.5. This implies therefore, that investors are more interested in short-term goals like profit and need more education of the effects of their decisions in the long-run. Issues of environment and social responsibility are better dealt with other stakeholders or legal requirements. Investor education which is mainly carried out by CMA

should include making investors aware of the consequences of their choices on environment and communities in which corporations exist.

The study recommends that institutions that operate in capital markets companies should publish financial annual reports, and any material events as soon as possible if more investors are to be encouraged to invest in the NSE as these are considered the most important sources of information by the investors. Furthermore timeliness in financial reporting need to be reconsidered by all the market players especially regulators. The law requires companies to publish financial reports with six months after reporting period. This is rather too long a time and relevancy of information is scarified for reliability. The study further recommends that the companies should take seriously the issue of financial statement as it became apparent that the investors are interested in all the parts of the financial statements. Company information to include future based information and management decisions as much as possible which include forecasts.

Investors need more information than is currently available and as fast as it can be on dealings by directors, forecasts and daily changes in prices of their investment. Financial analysts, accountants should develop means of providing timely information. There is also the issue of quality of advice give by financial analysts and the cost users are prepared to pay for the acquisition of such knowledge. Just how accurate are the forecast given in the media by financial analysts and prepares of financial disclosures by companies? Caution should be taken that there is no delay in publication of the annual reports if the companies are to attract investors. These should be accompanied by ensuring there is adequate information to the investors and ease access to the annual reports. The study therefore recommends for a comprehensive review of company

act and other regulations and policies to encourage companies to publish information as early as possible. The statutory requirement for publication of reports should include stockbrokers who are major players in the investment process. A review of avenues for financial disclosures is also in order.

There is the need to develop interdisciplinary researches in order to establish conclusive theories in areas of decision-making and use of financial disclosure. Having observed that use of information in decision-making is affected by biological, physiological, social as well as economic/finance factors it is of interest for institutes of higher learning to encourage researches that cut across departments and faculties. Institutes of learning to establish a unit/ departments of behavioral finance for not only financial gurus but also individuals who are interested in making economic decisions that have a human face. This studies will be relevant to analysts, prepares of financial disclosures, managers, academicians and investors in improving on the quality of decision-making. This research has identified that self-knowledge of an investor and other participants in financial disclosure chains. Harvard University is an example of an institution that offers the course. Curricula developers in institutes of learning to also include issues of ethics, sociology, psychology and social responsibility in the whole process of human growth if have to create a country of economic growth and equitable nation of fairness and justices as emphasized in vision 2030.

A legal framework of financial advisors, stockbrokers and analysts need to be developed. The company law, income tax act and accountants act govern the operations of public accountants and prepares of financial report. Likewise, ICPAK is more in control of its members. However, financial analysts and advisors do not have a legal framework that governs their work and

decisions in relation to investors and capital markets. The research has identified gaps that exist due to lack or poor knowledge as to insider dealings. Private investor and sectors of government are encouraged to develop information bureau that would be of service to investors. Trading profile like directors' sale and purchase of shares should reach investors as soon as possible to give them equal opportunity with managers who have information advantage. However, the problem remains as to how much investors will be willing to pay for such service owing to unique characteristics of information as a good/service for sale. This would also be a research for another day. Companies are encouraged to give more information through many channels as much as possible so that users can draw out their conclusions and decisions. The researcher is in agreement with Sorter (1969) recommended investigation to the degree of information loss due to aggregations presently used by accountants.

The study recommends a review on legal provisions on insider trading to protect investors against its risks, misuse of investors' funds and other market malpractices. Most members of Chartered Financial Analysts come from developed countries. Establishment of investor body that would lobby for investors rights to information and representation in courts when companies fail or managers engage in unfair dealings would reduce loss due to market anomalies. Having appreciated stakeholders' and political theory's assumption that parties demand and provide information to suit their interests it is imperative that investors be motivated to come together for their common good.

The study recommends to an establishment of options market to serve investors mitigate their losses. A review of literature on financial disclosures revealed that financial investment is a studious process that has led loss of wealth in many cases. It is not easy to put value on

investments and stock volatility is not easy to predict. The capital market in Kenya on the other hand do to not have option or sectors that would serve investors who do not wish to engage in very risky businesses. An options market would grantee an investor that his/her losses will not go beyond a special line.

A review of syllabi of training in accounting and finance to include communication and report writing skills will be in order. The IFRs framework requires that financial information should be understandable to the users. Some of the users mentioned are investors. However, from the research, users do find that the reports are difficult to comprehend. Therefore it is important that prepares of financial information understand well the needs of investors and address them well in reports and other meeting avenues.

5.2 LIMITATIONS

This study was limited to institutional investors trading at NSE, who are within Nairobi due to logistic convenience. The survey limited itself to five major institutional investor subgroups; namely pension fund managers, insurance companies, unit trusts, stockbrokers and investment advisors who have offices in Nairobi. The logistics, cost and time would not allow the researcher to cover these interest groups of the research. There are other investors who invest in or deal with capital markets in Kenya but were not covered in the population under study. These include banks, corporation and individual investors, foreign investors, banks, NSSF and government corporations. The observations and conclusions from this study can therefore be inferred to these other groups with some margin of error.

During the interviews, none of the respondents provided any institutional policy on process of investment and use of financial disclosures. Therefore, the responses could include personal biases and individual characteristics. Some were not even ready to fill some parts of the questionnaires because they considered the information required to be too sensitive. However, this affirms the fact that decision-making is bounded by social-psychological characteristics of individuals.

INFORMATION FOR FURTHER RESEARCHES

The number of respondents in the group of unit trusts was too small for the purpose of making comparison and contrast tests in the use of financial information. The few unit trusts in existence are controlled either by insurance companies or by banks who are also investment advisors. Therefore, the questionnaires ended up being filled by the same persons or persons from within the same department. The similarities and difference may be attributed more to individual differences than user group differences as intended.

Items picked for study on financial reports, sources of disclosures, ethical issues and limitations were done on subjective level. They are neither conclusive nor random for a complete random sample study. Due to limitation of time and for the purpose of convenience to respondents not to have long questionnaires parts of financial disclosures chosen were not conclusive. More still the respondents did not in some cases fill all the questionnaires citing that they were too long. Though the study implicitly intended to compare the cost of financial disclosures amongst corporations, the logistics did not allow. As ascertained user groups wish to have more and more information but to what extend are they ready to pay for the costs? Due to limitation of time this issue was not addressed.

Finally, the respondents were not cooperative in answering all the questions. They considered some of the information required to be confidential. This was because the researcher did not carry out a pilot study. As a result, it was not possible to make conclusive comparison of the responses received.

5.3 RECOMMENDATION FOR FURTHER RESEARCHES

The use of financial disclosures has several dimensions as identified in the literature review some which have been extensively researched and other areas the need to be researched. More so accounting being social science will continue evolving and opening new horizons for research. Several theoretical and practical issues have been identified in current study that requires further researches. Analysis of the cost of financial disclosures is necessary to evaluate how more or less information relates to cost. Such study will use secondary data to evaluate cost of disclosures between companies and carry out longitudinal survey as to how the cost of disclosures have been affected and limited the level of information in financial reports.

A repeat of this study to other groups of users of financial statement is in order or at another time and rural place is important. The accounting framework by IFAC, classifies investors into one uniform user group but the survey has established their differences. However, investors as identified in this study are varied and their expectations. Therefore a study is required to ascertain how varies needs of the diverse user groups are needed. Such a study will go a long way towards directing regulators, and prepares financial information in defining the scope and objective of relevant and reliable information.

A research on the relation between quality of companies' financial disclosures and financial analysts forecast. Such research will not only affirm the use of financial disclosures by financial analysts but only to what extent investors would rely on financial analysts. As channels of communication and competition of mass media grow there is bound to be changes in information releases by companies and its use by analysts. Therefore many will rely on such analysis to make financial decisions assuming that the information is reliable and that analysts are competent enough to make relevant predictions. A study on how more information and the nature of disclosures relates to quality predictions by analysts will give both the preparers and investors clue on what time of information to give and demand respectively.

A study on small investors who would include farmers, employees and rural investors need for information and means of their having information should be conducted. The NSE operations are based in Nairobi while investors are spread within and outside the country. The law requires that companies furnish investors with annual reports at AGM and prospectus during offer of shares to the public. The efficacy of this exercise has not been established though it must be costly posting to shareholders and the public such information. A survey on the relevancy of information released will therefore be of value to investors, regulators and preparers of financial disclosures on the relevancy of their costly process.

A survey on geographic limitation of the value of information in third world is necessary. Such research will investigate in relationship between information use and proximity of investors to entities in which they invest. As investors' profile grows, individuals are interested in establishing how to access information from diverse locations and cultures. More so many of companies are becoming global. It is important therefore to investigate how proximity to an investment of

source of financial information reduces risk. How does investing in foreign lands affect risk and return? It will also establish whether upcountry investors are disadvantaged against urban investors in so far as investment and information flow is concerned.

A study on the relationship between level of regulations, quality of disclosure and use of information for decision-making is in order. The respondents asked for more regulation on the issue of financial disclosures. However as cited in the literature review legislation has its own limitation. Before applying more government intervention and legislation, it is important for a research to be carried out to ascertain the optimality of the current legal system as far as corporate disclosures is concerned. The research will also identify areas of weakness that require additional legislation and areas where there are conflicts in the existing statutes. A review of legislations of other capital markets, both in industrialized countries and emerging economies, will be useful in this exercise.

Finally, the researcher recommends a comprehensive investigation into effects of legislation on financial disclosures in relation to investment decisions. Having appreciated the need of financial disclosures to investors, it is important to research into the value and place of regulation. As pointed out from the literature review the importance of regulations on financial disclosures is controversial. Issues like regulations on insider trading, stockbroker malpractices and quality of analysts forecast areas for further research. Where laws exist, a survey is needed to investigate the effect of implementation of the rules.

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APPENDIX A – AN INTRODUCTORY LETTER TO RESEARCH RESPONDENTS

Antony O. Wesonga
Department of Accounting
University of Nairobi
P.O. Box 30197
19th Sept 2007

The Chief Executive Officer/Chief Finance Officer/Head of Research

Dear Madam/Sir

RE: RESEARCH PROJECT

I am a post graduate student at the University of Nairobi conducting a research project as part of the requirements of the degree of Masters of Business Administration. My study is titled, “**The use of financial disclosure to decision making by investors in Kenya**”. Due to the important role you play as an investor/advisor at NSE, you have been selected as a respondent in this study. Kindly make a response as earlier as possible. Your response will only be used for study purposes.

A copy of the research project will be made available to you upon request. Your co-operation will be greatly appreciated.

Thanking you in advance

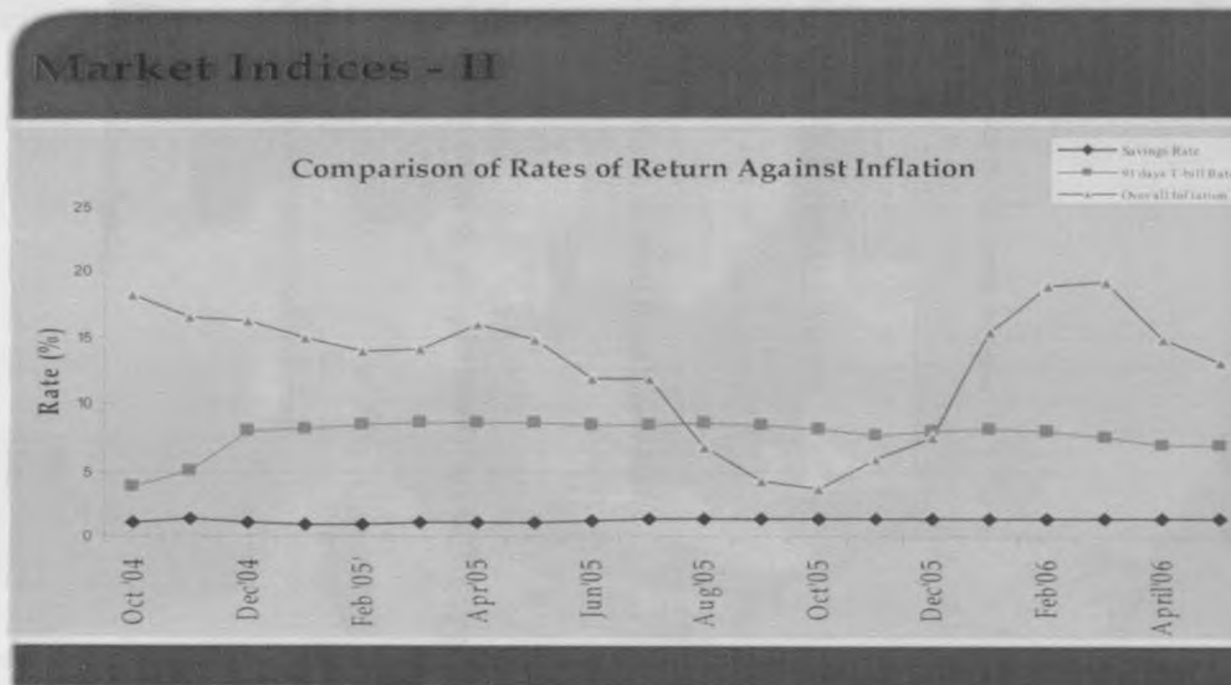
Antony Wesonga
MBA Student
Department of Accounting & Finance
School Of Business
University Of Nairobi

Appendix C Mann-Whitney Test

	View community involvement	N	Mean Rank	Sum of Ranks
How change in assets in financial statement are ranked	Irrelevant	1	2	2
	Important	10	6.4	64
	Total	11		
How capital expenditures in financial statement are ranked	Irrelevant	1	5	5
	Important	10	6.1	61
	Total	11		
How accumulated depreciation in financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How total revenue and breakdown by source in financial statement are ranked	Irrelevant	1	1	1
	Important	10	6.5	65
	Total	11		
How breakdown of operating income and extraordinary items in financial statement are ranked	Irrelevant	1	1	1
	Important	10	6.5	65
	Total	11		
How depreciation and amortization expenses in financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How number of shareholders and those holding more than 5% in financial statement are ranked	Irrelevant	1	10	10
	Important	10	5.6	56
	Total	11		
How employee disclosure in financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How comparative cash flow statements for 5 years in financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How comparative cash flow financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How statements for 10 years in financial statement are ranked	Irrelevant	1	1.5	1.5
	Important	10	6.45	64.5
	Total	11		
How number of shares held by directors and government in financial statement are ranked	Irrelevant	1	10	10
	Important	10	5.6	56

	Total	11		
How number of employees and names of top executives in financial statement are ranked	Irrelevant	1	8.5	8.5
	Important	10	5.75	57.5
	Total	11		
How breakdown of sales by major products and customers financial statement are ranked	Irrelevant	1	6.5	6.5
	Important	10	5.95	59.5
	Total	11		
How production capacity and actual output in financial statement are ranked	Irrelevant	1	9.5	9.5
	Important	10	5.65	56.5
	Total	11		
How comparative net sales for 5 years in financial statement are ranked	Irrelevant	1	10.5	10.5
	Important	10	5.55	55.5
	Total	11		
How declaration by directors of veracity of the financial statements in financial statement are ranked	Irrelevant	1	3.5	3.5
	Important	10	6.25	62.5
	Total	11		
How description of major products and services including information on potentially new products in financial statement are ranked	Irrelevant	1	5.5	5.5
	Important	10	6.05	60.5
	Total	11		

Appendix D: NSSF INVESTMENT PERFORMANCE IN 2002



Author: Odundo (2003)

Appendix E: LIST OF POPULATION

i) INSURANCE COMPANIES IN KENYA

1. African Merchant Assurance Company (AMACO)
Physical Address: Transnational Plaza 2nd floor Mama Ngina St
Fax :340022
Tel: 312121
2. AIG Insurance Company
Physical Address: AIG House, Eden Square Complex, Chiromo Road
P. O. Box 49460 - 00100
Nairobi
Fax: 3676001/2
Tel: 3676000/3751800
3. APA Insurance Company
Physical Address: Hughes Bldg 6th flr Kenyatta Avenue
Fax: 2862200
Tel: 2862000
4. Apollo Life Assurance Company
Physical Address: Hughes Bldg 6th flr Kenyatta Avenue
Fax: 343594
Tel: 343585-95
5. Blueshield Insurance Company
Physical Address: Blue Shield Towers, Hospital Road Upper Hill
Fax: 214773
Tel: 2032590/1
6. British America Insurance Company
Physical Address: British America center mara/Ragati Road Capital Hill, UpperHill
Fax: 2717626
Tel: 2710927
7. Cannon Assurance Company
Physical Address: Cannon Hse 6th flr Haileselassie Avenue
Fax: 341910
Tel: 342150/ 218287
8. CFC Life Assurance Company
Physical Address: CFC Hse, Mamlaka Road
Fax: 2718365
Tel: 2866000
9. Concord Insurance Company
Physical Address: Yaya Center 4th flr Argwings Kodhek

Fax: 2720165
Tel: 2720166/7

10. Co-operative Insurance Company
Physical Address: CIC plaza Mara Road Upperhill
Fax: 2823000
Tel: 2823333
11. Corporate Insurance Company
Physical Address: Corporate Place Kiambere Road, UpperHilll
Fax: 2717775
Tel: 2717617 2718235
12. Directline Assurance Company Ltd
Physical Address: Hazina Towers, 17th Floor, Monrovia Street
Fax: 242746
Tel: 242405
13. Fidelity Shield Insurance Company
Physical Address: Rank Xerox 4th flr Parkland Road
Fax: 445699
Tel: 4443063-9
14. First Assurance Company
Physical Address: Clyde gardens off Gitanga Road lavington
Fax: 567433
Tel: 577737/ 567374
15. Gateway
Physical Address: Gateway place milimani Road
Fax: 2713138
Tel: 2713131/2
16. Geminia Insurance Company
Physical Address: Geminia Insurance Plaza
Kilimanjaro Avenue
Fax: 2782100
Tel: 2782000
17. General Accident Insurance Company
Physical Address: GA Hse 4th flr Ralph Bunche Road
Fax: 2714542
Tel: 2711633
18. Heritage A.I.I Insurance Company
Physical Address: CFC Center Chiromo Road
Fax: 3752621
Tel: 3749118/3749043

19. Insurance Company of East Africa (ICEA)
Physical Address: ICEA Bldg Kenyatta Avenue
Fax: 249715
Tel: 221652/ 340365
20. Intra Africa Assurance Company
Physical Address: Williamson Hse3Road flr 4th Ngong Avenue
Fax: 2712612
Tel: 2712610/ 2712607
21. Invesco Insurance Company
Physical Address: 5th Floor, CVS Plaza, Lenana Road
P. O. Box 52964 - 00200
Nairobi
Fax: 2734903
Tel: 2734892/3
22. Jubilee Insurance Company
Physical Address: Jubilee Insurance Hse Wabera St
Fax: 32081000
Tel: 216882
23. Kenindia Assurance Company
Physical Address: Kenindia Hse Loita St
Fax: 218380
Tel: 316099/316460
24. Kenya Alliance Insurance Company
Physical Address: Chester Hse 1St flr Koinange St
Fax: 217340
Tel: 241626/ 243526
25. Kenya Orient Insurance Company
Physical Address: Capital hill Towers 6th flr Cathedral Road
Fax: 2728605
Tel: 2728603/4
26. Lion of Kenya Insurance Company
Physical Address: Williamson Hse7th flr 4th ngong ave
Fax: 2711177
Tel: 2710400
27. Madison Insurance Company
Physical Address: Madison Hse Upperhill Road
Fax: 2723344
Tel: 2721970/1
28. Mercantile Life & General Insurance Company
Fedha Towers 16th flr Muindi Mbingu

Fax: 215528
Tel: 218244,219486

29. Metropolitan Life Insurance Kenya Ltd.
International House, Mama Ngina Street, mezzanine Floor
Fax: 243179
Tel: 243126/42/58
30. Monarch Insurance Company
Prudential Assurance Building, 4th Fl. Wabera Street
Tel. 310032
Fax. 340691
Email:monarch@form-net.com
31. Occidental Insurance Company
PoStbank Hse 14th flr Banda St
Fax: 217629
Tel: 218003/5
32. Old Mutual Life Assurance Company
Old mutual Bldg Mara/hospital Road, UpperHill
Fax: 2722415
Tel: 2728881
33. Pan Africa Life Assurance Company
Pan Africa Hse Kenyatta Avenue
Fax: 247600
Tel: 339544/5
34. Pacis Insurance Company Ltd
Centenary House, 2nd Floor, Off Ring Road, Westlands
Fax: 4446167
Tel: 4452560
35. Phoenix of East Africa Assurance Company
Ambank Hse 17th 18th flr University Way
Fax: 211848
Tel: 251350
36. Pioneer Life Assurance Company
Pioneer Hse 6th flr Moi Avenue
Fax: 224985
Tel: 220814
37. Real Insurance Company
Royal Ngao Hse Hospital Road, UpperHill
Fax: 2717888
Tel: 2712620

- 38. Standard Assurance Company
Re-insurance plaza 4th flr Taifa Road
Fax: 224071
Tel: 224493/224721
- 39. Tausi Assurance Company
Tausi Court, Tausi Road off Muthithi Road
Fax: 3746602/3
Tel: 3746602/3
- 40. Trident Insurance Company
Capital hill Towers 1St flr Cathedral Road
Fax: 2726234
Tel: 2721710/ 2721728
- 41. Trinity Life Assurance Company
Re-insurance plaza 5th flr Taifa Road
Fax: 249835
Tel: 243596/ 244229
- 42. UAP Provincial Insurance Company
BishopGaRoaden Towers, Bishop Road
Fax: 2719030
Tel: 2850000

ii) LIST OF UNIT TRUSTS

1. African Alliance Kenya Unit Trust Scheme:

- a) African Alliance Kenya Shilling Fund.
- b) African Alliance Kenya Fixed Income Fund.
- c) African Alliance Kenya Managed Fund.
- d) African Alliance Kenya Equity Fund

2. Old Mutual Unit Trust Scheme:

- a) Old Mutual Equity Fund.
- b) Old Mutual Money Market Fund.
- c) Old Mutual Balanced Fund.

3. British American Unit Trust Scheme:

- a) British American Money Market Fund.

- b) British American Income Fund.
- c) British American Balanced Fund.
- d) British American Managed Retirement Fund.
- e) British American Equity Fund.

4. Stanbic Unit Trust Scheme:

- a) Stanbic Money Market Fund.
- b) Stanbic Flexible Income Fund.
- c) Stanbic Managed Prudential Fund.

5. Commercial Bank of Africa Unit Trust Scheme:

- a) Commercial Bank of Africa Money Market Fund.
- b) Commercial Bank of Africa Equity Fund.

6. Zimele Unit Trust Scheme:

- a) Zimele Balanced Fund
- b) Zimele Money Market Fund

7. Suntra Unit Trust Scheme:

- a) Suntra Balanced Fund
- b) Suntra Money Market Fund
- c) Suntra Equity Fund

8. ICEA Unit Trust Scheme:

- a) ICEA Equity Fund
- b) ICEA Money Market Fund
- c) ICEA Growth Fund

9. Standard Unit Trust Scheme:

- a) Standard Equity Growth Fund
- b) Standard Income Fund
- c) Standard Balanced Fund

iii) LIST OF INVESTMENT ADVISORS:

- 1) VFS International (K) Limited P.O. Box 4-00621, Nairobi 022/07
- 2) Bridges Capital Limited P.O. Box 62341-00200, Nairobi 023/07
- 3) Cititrust (Kenya) Limited P.O. Box 30711-00100, Nairobi 024/07
- 4) Co-operative Consultancy Services (K)
Limited P.O. Box 48231-00100, Nairobi 025/07
- 5) Covenant International Limited P.O. Box 931-00606, Nairobi 026/07
- 6) Dry Associates Limited P.O. Box 684-00606, Nairobi 027/07
- 7) Executive and Corporate Advisory
- 8) Services Limited. P.O. Box 72216-00200, Nairobi 028/07
- 9) Franklin Management Consultants Ltd P.O. Box 61843-00200, Nairobi 029/07
- 10) Iroko Securities (Kenya) Limited P.O. Box 66249-00800, Nairobi 030/07
- 11) Jani Consultancy Services Limited P.O. Box 40583-00100, Nairobi 031/07
- 12) J.W. Seagon Limited P.O. Box 63420-00619, Nairobi 032/07
- 13) Loita Asset Management Limited P.O. Box 39466-00623, Nairobi 033/07
- 14) First Africa E.A Limited P.O. Box 56179-00200, Nairobi 034/07
- 15) Winton Investment Services Limited P.O. Box 607-00621, Nairobi 035/07

- 16) Equilibrium Capital Limited P.O. Box 9000-00100, Nairobi 036/07
- 17) Inter-Alliance International Limited P.O. Box 44249-00100, Nairobi 037/07
- 18) Deloitte Financial Advisory Limited P.O. Box 30029-00100, Nairobi 001/07
- 19) Tsavo Securities Limited P.O. Box 11987-00100, Nairobi 064/07
- 20) WSD Capital (K) Limited P.O. Box 99139 Mombasa 065/07

iv) LIST OF NSE STOCK BROKERS

- 1) Francis Drummond & Co. Limited
- 2) Ngenye Kariuki & Co. Ltd.
- 3) Dyer & Blair Investment Bank Ltd
- 4) Suntra Investment Bank Ltd
- 5) Francis Thuo & Partners Ltd (under statutory management)
- 6) Reliable Securities Ltd.
- 7) Nyaga Stockbrokers Ltd.
- 8) CFC Financial Services – Stock broking Division
- 9) Kestrel Capital (EA) Limited
- 10) Discount Securities Ltd.
- 11) Sterling Securities Ltd
- 12) African Alliance Kenya Securities.
- 13) Ashbhu Securities Ltd
- 14) Crossfield Securities Ltd
- 15) Apexafrica Investment Bank Ltd
- 16) Faida Securities Ltd.

- 17) Solid Investment Securities Ltd.
- 18) Standard Investment Bank Ltd
- 19) Bob Mathews Stockbrokers Ltd.
- 20) Renaissance Capital (Kenya) Ltd

v) LIST OF FUND MANAGERS

1.	African Alliance Kenya Ltd	27639, NBI	2710978
2.	AIG Insurance Company	67262	2733400
3.	Amana Capital Ltd	9480	313356
4	British American Assets Mang	30375	2710927
5.	CFC Financial Services Limited	44074	3753726
6.	Co-op Trust Investment Services	48231	228711
7.	Genesis Kenya Investment mgt	79217	251012
8.	ICEA Asset Management Limited	46143	221652
9.	Jubilee Financial Services Limited	30376	340343
10.	Kenindia Asset Management	44372	333100
11.	Madison Asset Management	47382	721970
12.	Old Mutual Asset Managers (E.A)	11589	2711309
13.	Old Mutual Asset Managers (K) Ltd	11589	2711335

14.	Stanbic Investment Management	30550	3268000
15.	Zimele Asset Management Ltd	76528	246267