An assessment of compliance on corporate governance disclosures in the annual reports: Survey of publicly listed companies in Nairobi stock exchange

By

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A research project submitted in partial fulfillment of the requirement for the degree of Master of Business Administration M.B.A (finance),

School of Business Kenyatta University
STUDENT'S DECLARATION

I hereby declare that this research project is my original work and has not been presented for a degree in any other University or any other award.

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This project has been submitted to the School of Business for examination with our approval as supervisors.

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ABSTRACT

For a business to expand and grow, it will require funding from investors. Before investors decide to invest their funds in a particular business, they will want to be as sure as they can be that the business is financially sound and will continue to be so in the foreseeable future. Investors therefore need to have confidence that the business is being well managed and will continue to be profitable. In order to have this assurance, investors look to the published annual report and accounts of the business and to other information releases that the company might make. It is their expectation that the annual report will represent a true picture of the company’s present position. Therefore, financial and corporate reporting plays an important role in any given economy. Since publication of annual reports is a statutory requirement, the management may address various components of corporate governance in their annual reports but the extent of disclosures of these components may differ from company to company and also fall short of what is required and recommended. In order to assess the extent of corporate governance disclosure, this research study will use empirical method known as disclosure index. To derive the disclosure index, a thorough analysis of the annual reports will be required whereby items disclosed by a specific company will be benchmarked with those in the checklist. Keeping objectivity criteria this research study used, unweighted disclosure index methodology where all items of disclosure were considered to be equally important. The study employed census technique where all the 52 companies which are listed at the NSE as at 31st December 2009 were used to assess the level of corporate governance disclosures in the annual reports in Kenya. The study relied on secondary data where annual reports were analyzed to extract items of governance disclosed by various companies. Data collected from the field were coded and analyzed using Statistical Packaged for Social Sciences (SPSS) and interpretations given. The study showed variations in disclosure of various aspects of corporate governance by Kenyan listed companies. In addition, it emerged from the study that certain areas of disclosure require a lot of improvements particularly on communication and relation with the shareholders which reflects low level of disclosure statements in the annual report which would hinder users in making informed investment decisions.
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DEDICATION

To my lovely son Chris Gachobe, My late sister Margaret Wangari and My late brother JB Wamiti
TABLE OF CONTENTS

STUDENT'S DECLARATION .................................................................................. ii
ABSTRACT ........................................................................................................... iii
ACKNOWLEDGEMENTS ................................................................................... iv
DEDICATION....................................................................................................... v
TABLE OF CONTENTS .................................................................................... vi
LIST OF TABLES............................................................................................... vii
LIST OF FIGURES ........................................................................................... viii
LIST OF ABBREVIATIONS ............................................................................. ix
OPERATIONAL DEFINITIONS OF TERMS ..................................................... xi

CHAPTER ONE: INTRODUCTION ................................................................. 1
1.1 Background of the study ............................................................................. 1
1.2 Statement of the problem ......................................................................... 4
1.3 General objective of the study ................................................................. 5
1.4 Specific objectives ..................................................................................... 6
1.5 Research questions .................................................................................. 6
1.6 Significance of the study ......................................................................... 7
1.7 Scope of the study .................................................................................... 7

CHAPTER TWO: LITERATURE REVIEW ..................................................... 9
2.1 Introduction to literature review ............................................................... 9
2.2 Global initiatives on corporate governance ........................................... 9
2.3 Corporate governance reporting and practices in Kenya ..................... 16
2.4 Empirical literature review .................................................................... 19
2.5 Critical review of major issues ............................................................... 28
2.6 Theoretical framework ......................................................................... 37
2.7 Conceptual framework ......................................................................... 41
2.8 Summary and gaps to be filled by the study ......................................... 44
LIST OF TABLES

Table 4.1 Break down of list of companies ................................................................. 49
Table 4.2 Organization board and its directors ......................................................... 50
Table 4.3 Director’s responsibilities ........................................................................... 51
Table 4.4 Board size information ................................................................................ 52
Table 4.5 Board leadership ......................................................................................... 54
Table 4.6 Board composition ...................................................................................... 55
Table 4.7 Directors remuneration ................................................................................ 56
Table 4.8 Board audit committee ................................................................................ 57
Table 4.9 Risk management ......................................................................................... 58
Table 4.10 Credit committee ....................................................................................... 59
Table 4.11 Assets and liability committee ................................................................... 60
Table 4.12 Accountability and audit ............................................................................ 61
Table 4.13 Relation and communication with shareholders ....................................... 62
Table 4.14 Corporate social responsibilities ............................................................... 63
Table 4.15 Code of ethics ............................................................................................. 64
Table 4.16 Corporate governance reporting .............................................................. 65
LIST OF FIGURES

Figure 4.1 Break down of list of companies .................................................. 50
Figure 4.2 Organization board and its directors ........................................... 51
Figure 4.3 Director’s responsibilities ............................................................. 52
Figure 4.4 Board size information ................................................................. 53
Figure 4.5 Board leadership ........................................................................ 54
Figure 4.6 Board composition ..................................................................... 55
Figure 4.7 Directors remuneration ................................................................. 56
Figure 4.8 Board audit committee ................................................................. 57
Figure 4.9 Risk management ...................................................................... 58
Figure 4.10 Credit committee ...................................................................... 59
Figure 4.11 Assets and liability committee .................................................. 60
Figure 4.12 Accountability and audit ............................................................. 61
Figure 4.13 Relation and communication with shareholders ....................... 62
Figure 4.14 Corporate social responsibilities ............................................... 63
Figure 4.15 Code of ethics ......................................................................... 64
Figure 4.16 Corporate governance reporting ............................................... 66
LIST OF ABBREVIATIONS

CMA- Capital Market Authority
ICPAK Institute of Certified Public Accountants of Kenya
NSE Nairobi Stock exchange
PSCGT Private Sector Corporate Governance Trust
CCG Centre for Corporate Governance
CBK Central Bank of Kenya
CEO Chief Executive Officer
ICGN International Corporate Governance Network
OECD Organization for Economic Co-operation and Development
IOD Institute Of Directors
(IFRS) International Financial Reporting Standards
ASX Australian Securities Exchange
OPERATIONAL DEFINITIONS OF TERMS

Corporate Governance:
This is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long

Disclosure:
This means reporting a particular aspect of corporate governance or disseminating information relating to corporate governance in the annual reports.

Disclosure Index:
This refers to the sum of the weights assigned to items of disclosure included in a company’s annual reports as a measure of the quality of a firm’s financial disclosure.

Good Governance:
This addresses the allocation and management of resources to respond to collective problems. It is characterized by participation, transparency, accountability, rule of law effectiveness and equity.

Board of Directors:
A board of elected or appointed members who jointly oversee the activities of a company or organization

Stock Market index:
This is a measure of changes in the stocks markets and is usually considered to be reasonably representative of the market as a whole.
1.1 Background of the study

For a business to expand and grow, it will require funding from investors. Before investors decide to invest their funds in a particular business, they will want to be as sure as they can be that the business is financially sound and will continue to be so in the foreseeable future. Investors therefore need to have confidence that the business is being well managed and will continue to be profitable. In order to have this assurance, investors look to the published annual report and accounts of the business and to other information releases that the company might make. It is their expectation that the annual report will represent a true picture of the company’s present position. Therefore, financial and corporate reporting plays an important role in any given economy. The information contained in the financial reports is the lifeblood upon which significant economic decisions by the various stakeholders thrive. Such decisions may substantially impact the economic growth and no doubt provision of such information should not only be comprehensive but more importantly be relevant and faithfully represent the economic phenomenon that it purports to represent.

According to Barako et al (2006), crucial to investors’ participation at the stock exchange is access and availability of information about listed securities. The more accurate and reliable information that companies disclose, the better is the public perception of companies’ traded securities. Recent trends have depicted significant development in the capital markets in Kenya and other countries with stock exchange becoming a key source
of investment opportunity for investors and a primary source of funds for organizations. These developments call for combined efforts by all stakeholders within the financial reporting chain to ensure guaranteed investor confidence which is the bedrock of the securities market.

Out of the many disclosures that may be reported in the annual reports, corporate governance may carry the greatest weight. This is because it is how a particular company is governed, that may help someone to make an informed decision.

Corporate governance has become one of the most commonly used phrases in the current global business vocabulary. According to Solomon (2007) corporate governance refers to the system of checks and balances, both internal and external to companies which ensure that companies discharge the accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity. Corporate governance is about how accountability towards stakeholders is exercised. It is about systems that ensure stakeholders are kept well informed about the company’s financial performance and prospects. It is about prompt and full disclosure of events and factors which materially affect stakeholder’s interests. According to capital market authority (CMA), Corporate governance is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long term value while taking into account the interest of other stakeholders.
Berle and Means (1932), observes that, modern enterprises are so developed that in general, a single or a few persons cannot finance and supervise firm’s activities properly. Moreover, given the evolution of financial markets, shareholders become numerous. In large enterprises, effective control is therefore delegated over to the management creating the principal-agency relationship.

In this relationship, owners (principals) of companies no longer control the affairs of companies, the responsibility for management shift to the board of directors (agents) of the company.

According to Filatotchev and Brian (2009), managers as agents of shareholders may engage themselves in self-serving interest’s behaviour that may not be consistent with the shareholder’s wealth maximization policy. In the context of corporations and issues of corporate control, agency theory views corporate governance mechanisms, especially the board of directors, as an essential monitoring device to try to ensure that any problems that may be brought by the principle-agent relationship are minimized (Mallin, 2007).

Many countries have already issued corporate governance codes and the recommendations of these codes that typify good corporate governance undoubtedly contribute towards increased transparency and disclosure (Mallin, 2002). In Kenya, the Capital Markets Authority (CMA), institute of certified public accountants of Kenya (ICPAK) and Nairobi Stock exchange (NSE) has been instrumental in effecting significant changes to Corporate Governance practices in Kenya.

In 2002, the CMA issued guidelines on corporate governance practices by public listed
companies in Kenya. Developed in part by the Kenya Private Sector Corporate Governance Trust (PSCGT), currently known as centre for corporate governance (CCG) and the Commonwealth Secretariat, the guidelines requires companies to comply or explain compliance deviations in the annual report and indicate the steps being taken to become compliant. In 2006, the central bank of Kenya under section 33(4), issued prudential guidelines for institutions licensed and banking act and one of the major heading was on corporate governance practices and disclosure.

1.2 Statement of the Problem

The strength of an organization’s corporate governance systems and the quality of public disclosures are becoming increasingly important to business for a number of reasons. Sustainability has become a critical business issue and investors are paying more attention to what is disclosed about a corporate organization to establish security of their investments in such organizations. The global financial crisis has also sharpened the lens through which corporate governance structures are held to account and expectations around transparency are raising the bar for more comprehensive and proactive disclosures from forward-thinking organizations, as opposed to the release of corporate governance details or policies in a reactive fashion.

Information availed to the public by various corporate organizations in their annual financial and corporate reports should be informative, accurate, reliable and exhaustive to assist potential investors make informed choices from available investment opportunities. However, certain corporate organizations publish reports which are in-exhaustive, below
expected standards and conceal vital information required by potential investors to make informed decisions about their investment choices especially when such information is perceived by management of these corporate organizations as being their points of weakness. As a result of such incomplete disclosures, potential investors are denied an opportunity to make their investment decisions based on true position of such corporate organizations and are exposed to bad corporate governance practices hidden behind undeclared reports and concealed truths. Unsuspecting investors put their money in corporate organizations that go under leaving behind a trail of heavy losses and despair among thousands of investors. A case in point is Nyaga Stock-brokers limited whose true liquidity position was hidden from investors until it collapsed due to poor corporate governance practices. Therefore, there is a need for all companies to fully disclose all aspects of corporate governance as recommended in their annual reports. It is against these fundamentals that this research project aims at assessing the extent of compliance on disclosures of various aspects of corporate governance in the annual reports of listed companies in Kenya.

1.3 General Objective of the Study

The general objective of this research is to assess the extent of corporate governance disclosures compliance in the annual reports of listed companies.
1.4 Specific Objectives

1. To establish the level of disclosure on Board attributes in the annual reports.
2. To determine the level of disclosure on accountability and audit related issues in the annual reports.
3. To assess the level of disclosures on relations and communication with shareholders.
4. To measure the level of disclosure on corporate social responsibility and environmental reporting.
5. To examine the disclosure level on codes of ethics in the annual reports.

1.5 Research Questions

This research study seeks to answer the following research questions:

1. To what extent are aspects of board attributes and roles disclosed in the annual reports?
2. What is the level of disclosure on accountability and audit issues in the annual reports?
3. To what extent are aspects of communication with shareholders disclosed in the annual reports?
4. What is the level of disclosure on corporate social responsibility and environmental issues?
5. To what level are aspects of codes of ethics disclosed in the annual reports?
1.6 Significance of the Study

This research study hopes to help shed light on corporate governance disclosures by listed companies in Kenya. It is thus hoped that, the study will be of importance to:

Investors

Both existing and potential investors will benefit from the research in that they will not only know the level of disclosure compliance, but also the extent of corporate governance reporting. Thus, they will be in a better position to make informed investment decisions.

Capital Market Authority

The CMA being the regulator of capital market will be able to know whether the information disclosed in the financial statements on corporate governance is adequate to users to make informed decisions or not. It will also be able to know the level of compliance on corporate governance disclosure.

Management

The management of various corporations will be able to assess the information they disclose in the annual reports against what is recommended.

Academicians and Researchers

It is also expected that the study will be useful to academicians and researchers in forming a basis for further study in the area of corporate governance.

1.7 Scope of the Study

This research assessed the extent of corporate governance disclosures in the annual reports of listed companies in Nairobi Stock exchange. The assessment was based on listed company’s annual reports for the financial year ending 2009. Also, given the low
level of technological development in Kenya it is unlikely that companies will undertake Internet reporting. Therefore, for the purpose of this study annual reports were considered as the major means through which information about the company is communicated. Therefore, it is believed that by focusing on the annual reports it is possible to understand the corporate governance practices by listed companies in Kenya.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction to Literature Review

This chapter provides a review of literature relating to corporate governance and disclosure of information in the annual reports of companies. The first section of the literature review is a synopsis of the global initiatives on corporate governance. This is followed by review of corporate governance and reporting in Kenya and empirical literature. The final sections of the chapter examine the critical review of the main issue, Conceptual framework, and gaps to be filled by the study.

2.2 Global Initiatives on Corporate Governance

Globally, Codes of good governance have some key universal principles for effective corporate governance that are common to most countries. Aguilera and Alvaro (2009) shows that most codes have some recommendations on the following six governance practices: a balance of executive and non-executive directors, such as independent non-executive directors; a clear division of responsibilities between the chairman and the chief executive officer; the need for timely and quality information provided to the board; formal and transparent procedures for the appointment of new directors; balanced and understandable financial reporting; and maintenance of a sound system of internal control. Some of the influential codes of corporate governance in the world include:
2.2.1 Cadbury Report (1992)

The Cadbury Report recommended a code of best practice with which the boards of all listed companies registered in the UK should comply.

The establishment of the Committee in 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession arose in response to the occurrence of financial scandals in the 1980’s involving UK listed Companies, which led to a fall in investor confidence in the quality of company’s financial reporting. Whilst the code of best practice is aimed at the directors of listed companies registered in the UK, the committee also exhorted others companies to try to meet its requirements. The main recommendations made are as follows:

The majority of non-executive directors should be independent of management and free from any business or other relationship, Non-executive directors should be appointed for specified terms and reappointment should not be automatic, Service contracts should not exceed three years, Executive remuneration should be subject to the recommendations of a Remuneration Committee made up entirely or mainly of non-executive directors and an Audit Committee, comprising of at least three non-executives, should be established.

2.2.2 International Corporate Governance Network

The international corporate governance network (ICGN) was founded in 1995. Its membership encompasses major institutional investors, investors, investor representative groups, companies, financial intermediaries, academics and others with an interest in the development of global corporate governance practices. Its objective is to facilitate international dialogue on corporate governance issues. Through this process, the ICGN
believes, companies can compete more effectively and economies can best prosper. The ICGN also believes that it is in the public interest to encourage and enable the owners of corporations to participate in their governance.

In 1999, Organization for Economic Co-operation and Development (OECD) principles of corporate governance were endorsed and since then the Principles have become recognized as a declaration of minimum acceptable governance standards for companies and investors around the world. Following the revision of the OECD principles in 2004, the ICGN reviewed its global corporate governance principles and published revised principles in 2005. Once more building on the OECD principles, the ICGN identified some additional principles of particular concern to its members. In particular the principles cover eight areas: corporate objective-shareholder returns; disclosure and transparency; audit; shareholders ownership, responsibilities and voting rights and remedies; corporate boards; corporate remuneration policies; corporate citizenship, stakeholder relations and the ethical conduct of business; corporate governance implementation.

2.2.3 OECD Principles of Corporate Governance

The OECD published its principles of corporate governance in 1999, following a request from the OECD council to develop corporate governance standards and guidelines. Prior to producing the principles, the OECD consulted the national governments of member states, the private sector, and various international organizations including the World Bank. The OECD recognizes that there is no single model of corporate governance that is
applicable to all countries. However, the principles represent certain common characteristics that are fundamental to good corporate governance. The principles were reviewed and revised in 2004 and the revised principles were as follows:

**Ensuring the Basis for an Effective Corporate Governance Framework**

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

**The Rights of Shareholders and Key Ownership Functions**

The corporate governance framework should protect and facilitate the exercise of shareholders’ rights.

**The Equitable Treatment of Shareholders**

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

**The Role of Stakeholders in Corporate Governance**

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

2.2.4 Sarbanes-Oxley Act (SOX) 2002

This was enacted following the financial scandals of Enron, Worldcom and Globle crossing. It was largely perceived that these companies collapsed as results of their close relationship with external auditors and hence the Act seeks to strengthen auditor independence and also to strengthen the company's audit committee. According to this act, listed companies must have an audit committee comprised only of independent members and must also disclose whether they have at least one audit committee with financial expertise. In addition, the act requires companies to disclose in their annual report the fees to the audit firm for each of audit, audit related, tax and other services. Also, according to the act the audit partner should be rotated every five years and is then subject to a five-year period during which he/she cannot be the audit partner for that company. The act provides for far reaching reform and has caused much disquiet outside US because it applies equally to US and non-US firms with a US listing (Mallin, 2007).
2.2.5 Global Corporate Governance Forum

This is at the heart of corporate governance co-operation between the OECD and the World Bank. It is an international initiative aimed at bringing together leading groups in governance including banks, organizations, country groupings, the private sector and professional standard-setting groups bodies. The main functions of this forum includes; to broaden the dialogue on corporate governance, to exchange experience and good practices, to co-ordinate activities and identify and fill gaps in provisions of technical assistance. In addition, it disseminates information events at national and regional levels, whereby interested parties are brought together to discuss issues, identify priorities for reform, and develop action plans and initiatives to achieve them (Mallin, 2007).

2.2.6 World Bank

The corporate governance activities focused by World Bank includes; the rights of shareholders, the equitable treatment of shareholders, the treatment of stakeholders, disclosure and transparency, the duties of board members. The World Bank utilizes the OECD principles to prepare country corporate governance assessments that details and assess the corporate governance institutional frameworks and practices in individual countries. These assessments may then be used to support policy dialogue, strategic work and operations, and to aid in determining the level of technical assistance needed in given countries in relation to their corporate governance development.

In addition, the international monetary fund (IMF) produces reports on the observance of standards and codes that summarize the extent to which countries observe internationally recognized standards and codes (Mallin, 2007).
2.2.7 King Reports

The King’s Committee Report and Code of Practice for Corporate Governance in South Africa published in 1994 continue to stimulate corporate governance in Africa. The King Committee on Corporate Governance was formed in 1992, under the patronage of the Institute of Directors, to consider corporate governance, of increasing interest around the world, in the context of South Africa. Corporate governance in South Africa was institutionalized by the publication of the King Report I in November 1994. Compared to its counterparts in other countries at the time, the report went beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical and environmental practice. In adopting a participative corporate governance system of enterprise with integrity, the King Committee in 1994 successfully formalized the need for companies to recognize that they no longer act independently from the societies and the environment in which they operate. In 2002, King committee revised King I report and came up with King II report which encourages openness and accountability for those who are entrusted with shareholders’ funds. Components of corporate governance included in King II report include: board and its directors; risk management and controls; internal audit; integrated sustainability reporting; accounting and auditing; relations and communication with shareholders and company’s code of ethics (IOD 2002).

In March 2010, King III report became effective and all the companies in South Africa both listed and non-listed have been encouraged to adopt it. In addition to enriching King
II report, King III report has brought the following governance on the board: Ethical leadership and corporate citizenship; governance of information technology and compliance with laws and rules, codes and standards (IOD 2010). According to Njeri (2009), King’s reports are viewed by many as the global benchmark for corporate governance practices. Therefore, many countries including Kenya are expected to have borrowed a lot from these reports. In fact according to CMA (2002), it is clear that corporate governance guidelines have been developed taking into account the work which has been undertaken extensively by several jurisdictions through many task forces and committees including but not limited to South Africa, the United Kingdom, Malaysia, Organization for Economic Cooperation and Development (OECD) and the Commonwealth Association for Corporate Governance.

2.3 Corporate Governance Reporting and Practices in Kenya

In Kenya, the general framework for financial accounting and reporting has been incorporated in the Kenyan Companies Act (Cap 486). The act stipulates the basic minimum requirements with regard to financial reporting. Specifically the Sixth Schedule of the Act sets out the disclosure requirements in respect of the statement of financial position and statement of financial performance. The major drawback of the act is the limited details pertaining to financial reporting and regulations, and therefore financial reporting and regulations are supplemented by the pronouncements of ICPAK. ICPAK is a body established through accountants act. Its responsibilities include development and implementation of accounting and auditing standards and have been instrumental in the setting of Kenyan Accounting Standards (KASs) since the early 1980s. In 1998 the
ICPAK decided to adopt international financial reporting standards (IFRSs) without any modification and as a result from 1999, financial statements for all companies in Kenya have been required to comply fully with IFRSs. In order to enforce adherence to the highest standards of financial reporting, the ICPAK maintains a close working relationship with regulatory institutions such as the Central Bank of Kenya, and the CMA. Also, the ICPAK is represented on the Disclosure and Standards Committee of the CMA. The NSE like many other stock exchanges maintains listing rules for all listed companies across the Main Investment Market Segment, the Alternative Securities Market Segment and the Fixed Income Securities Market Segment.

Due to many corporate failures in Kenya, corporate governance has started gaining importance of late. This is evidenced by establishment of different organizations that advocate for good corporate governance. In Kenya, key players which have been instrumental in developing and advocating for appropriate corporate governance framework in Kenya include CMA, NSE, ICPAK and CCG. In line with the emphasis on the need to improve the quality of financial reporting and governance by Kenyan companies, the CCG issued a draft Corporate Governance Guidelines on Reporting and Disclosures in Kenya in 1999. The emphasis of the draft guidelines is on non-financial disclosures, such as ownership, board (composition, qualifications, committees, meetings) auditor independence and corporate social responsibility.

In May 2002, the CMA developed, and gazetted the guidelines for good corporate governance practices for listed companies in Kenya, in response to the growing importance of governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets. More so, it was in
recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investor's rights.

In January 2006, under section 33(4) of the banking act, the CBK issued prudential guidelines to be adhered by all institutions licensed under the banking act. One of the issues highlighted was guideline on corporate governance. This Guideline is intended to provide the minimum standards required from directors, chief executive officers and management of an institution so as to promote proper standards of conduct and sound banking practices, as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness. The Guideline applies to the duties, responsibilities and code of conduct for shareholders, directors, chief executive officers and management of an institution. In particular the guideline requires the board to consist of at least five directors of which at least three-fifths should be non-executive directors. Independent Non-Executive Directors must comprise the majority of the Non-Executive Directors serving on any board. This is to ensure that the non-executive directors, who should form the majority, would render the necessary independence to the board from the executive arm of the banking institutions, and help mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the institution. In addition

The board is required to establish an Audit Committee to review the financial condition of the banking institution, its internal controls, performance and findings of the internal auditors, and to recommend appropriate remedial action regularly, preferably at least once in three months. The Audit Committee should consist of not less than three
members, at least two of whom should be independent non-executive directors of the banking institution. The members should be conversant with financial and accounting matters. Apart from audit committee the board should also appoint the following committee: Board Credit Committee; Asset and Liability Committee (ALCO); Risk Management Committee and Executive Committee.

2.4 Empirical Literature Review

A strong disclosure regime is a crucial aspect of market-based monitoring of corporate conduct and is central to the ability of stakeholders to make informed decisions and exercise their rights effectively. Experience in countries with large and active equity markets shows that disclosure can be a powerful tool for influencing the behaviour of companies and for protecting investors. A strong disclosure system on corporate governance can help to attract capital and maintain confidence in capital markets (Mallin, 2002). Stakeholders require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information may hamper the ability of markets to function, may increase the cost of capital and consequently result in a poor allocation of resources.

A study by Khan (2010) examines the effect of corporate governance elements on corporate social responsibility (CSR) reporting. The study involved the examination of annual reports for the year 2007-2008 of selected private commercial banks listed on the Dhaka Stock Exchange which were downloaded from the respective banks' official web
sites. The elements of corporate governance considered were non-executive directors, existence of foreign nationalities and women representation in the board. Using content analysis method and regression analysis, the results of the study showed that though voluntary, overall CSR reporting by Bangladeshi banks are rather moderate, however, the varieties of CSR items are really impressive. The results also displayed no significant relationship between the women representation in the board and CSR reporting. Conversely, non-executive directors and existence of foreign nationalities have been found the significant impact on the CSR reporting. The study recommended further study outside Bangladeshi.

Qu and Leung (2006) published a study examining cultural impact on Chinese corporate disclosure—a corporate governance perspective. They formulated a theoretical framework of the relationship between corporate disclosure and governance which formed the basis of his research. A composite checklist of corporate disclosure was developed using relevant corporate governance indices and analyses were carried out on the 2003 financial reports of 120 Chinese listed companies. Six areas of voluntary disclosure of the sample companies were analysed and reported. These areas are: board structure and functioning, employee’s related issues, director remuneration, audit committee, related party transactions and stakeholder interest. To carry out data analysis, the content of annual reports was compared with the voluntary disclosure index and coded in order to find whether particular voluntary disclosure item was disclosed by certain companies. A score of 1 was assigned to each item of information disclosed and 0 if not disclosed. The voluntary disclosure index was compiled based on the addition, and unweighted scoring
approach of the disclosure items. Their findings suggest that as China's cultural and social norms change, there was willingness of Chinese listed companies to provide voluntary information in addition to the disclosure requirements. Information relating to stakeholder interest and employees issues is found more frequently disclosed by listed companies than those which were regarded as sensitive. The study recommended a longitudinal study and qualitative research such as in-depth interview.

Barako et al (2006) examined the factors that influence voluntary corporate disclosure by using a sample of 43 listed Kenyan companies. They analyzed the annual reports of listed companies for the period 1992-2001 using weighted disclosure index where a checklist of 47 items was considered. In their study, a sample of 43 listed companies was used and found that board composition was negatively related to voluntary disclosure. They suggest that one explanation for this result is that the presence of independent directors is a substitute for voluntary disclosure. They also suggest that another reason for this outcome is that while many directors in Kenya may be outside the company, they may not be truly independent. On board leadership as another factor, their study did not show any association with the extent of voluntary disclosure. On the hand, presence of an audit committee showed a strong positive relationship with voluntary disclosure. In addition, the study found that there is a positive relationship between institutional shareholding, foreign ownership and the extent of voluntary disclosure. Size and leverage was also found to have a significant and positive relationship with voluntary disclosure. The use of annual reports only was cited as the main limitation of their study.
Hammami and Hossain (2009) studied the voluntary disclosures in the annual reports of listed companies in the Doha Securities Market (DSM) in Qatar. Specifically the study sought to empirically investigate the association between a number of company characteristics and the extent of voluntary disclosure in the annual reports. A total of 44 voluntary items using 25 listed companies was developed to assess the level of disclosure. They used a disclosure index to measure the average disclosure level. Their findings indicated that voluntary disclosure of the listed companies in DSM depends on some firm characteristics. Also the study revealed that age, assets, complexity and assets-in-place variables are significant in explanatory variable to the levels of voluntary disclosure, on other hand the profitable variable was found insignificant.

The study recommended that further research be done in other countries such as Gulf Co-Operation Council (GCC) member states as comparative and/or longer period of time should be considered which will help to validate the study. Also the research study suggested that the two most explanatory variables such as corporate governance and board composition can be considered in further studies.

The study of Ghazali (2007) investigated the influence of ownership structure on corporate social responsibility (CSR) disclosure in Malaysian company annual reports (CARs).

The sample comprised 87 non-financial companies which represented 66.1 percent of the market capitalization of all companies in the main market. The study used a CSR disclosure checklist of 22 items to measure the extent of CSR disclosure in annual reports and a multiple regression analysis to examine the association between ownership
structure and the extent of CSR disclosure in annual reports. The research found that, even among the larger and actively traded stocks in Malaysia, there is considerable variability in the amount of social activities disclosed in corporate annual reports. Results from multiple regression analysis showed that, consistent with expectations, companies in which the directors hold a higher proportion of equity shares (owner-managed companies) disclosed significantly less CSR information, while companies in which the government is a substantial shareholder disclosed significantly more CSR information in their annual reports. Since the research study considered annual reports as reference point only, it recommended further research be done on CSR reporting using other channels of communicating social contributions such as through company newsletters, websites and newspapers.

Isimoya et al. (2007) examined empirically the extent of compliance with the governance regulatory requirements by small and medium-sized companies (SMEs) listed on the alternative investment market (AIM). Their paper focused on AIM-listed companies over a period of three years (2002, 2003 and 2004) and concentrates on their extent of compliance with the corporate governance disclosure guidelines set out by the regulatory bodies. To measure the extent of disclosure, a checklist was compiled based on the Combined Code and FSA listing rules. Having reviewed the literature, a number of governance and firm structure-specific characteristics were selected. The relationships between the level of governance disclosure and the chosen characteristics were examined in order to highlight those factors that are associated with and affect the level of governance disclosure. They found that on average about 50 percent of governance items required to be disclosed had been reported by AIM-listed companies. As for large
companies, there is a positive relationship between the number of non-executive directors in governance mechanisms and the extent of disclosure. Considering that there has been a declining interest in AIM-listed companies, they recommended the presence of more non-executive directors, as this would ultimately mean more compliance with the governance disclosure requirements and could result in restored investor interest and confidence. The findings also indicated that SMEs are more likely to have adopted a stakeholder approach when concentrating on their governance arrangements.

Webb et al. (2008) initiated a survey on governance disclosures among U.S firms where a sample of 50 firms was used in the survey. They used content analysis and their results depicted a high degree of variability in the presentation and reporting of many elements of corporate governance structures. This variability cut across several items for which disclosure is mandated by regulators or legislative action. In particular, firms of smaller size offer fewer disclosures pertaining to independence, board selection procedures, and oversight of management including whistleblowing procedures. There are also trends associated with board characteristics for example, boards that are less independent offer fewer disclosures of independence and management oversight matters. Moreover, large firms provide more disclosures of independence standards, board selection procedures, audit committee matters, management control systems, other committee matters, and whistleblowing procedures but do not appear to have a strictly superior information environment when compared to smaller firms. The recommendation of the study was the academy and empirical rigor to take part in the development of theory of governance and
ethics disclosure in order to avoid a lot of costs associated with ad-hoc policy formulation.

Hoque and Herawaty (2007) study sought to explores the disclosure practices by Australian government departments. To achieve the research aim, they assessed the annual reports of 56 departments for the years 2005-2006. A checklist consisting of 47 mandatory and 20 voluntary disclosures items was constructed, after which disclosure index was employed to calculate the level of disclosures. The findings revealed that the voluntary disclosure level is higher than the mandatory disclosure in the subject departments. Further, it was found that the annual reports of government departments reveal a low level of disclosures in the areas of human resources, asset management, external scrutiny, purchasing, and contracting. They recommended a qualitative interview-based approach, to be used in future to explore, in depth, the underlying rationales for government departments to make voluntary disclosures. Since 2005-2006 was the first year for all government departments to comply with disclosure requirements, study recommended further research in order to examine trends in voluntary disclosures for years prior to 2005-2006. Also, according to this research, future research might also empirically examine the relationship between the extent of disclosure practices and contextual/organization specific variables such as department size, strategy, authority structure, process factors (implementation issues), external environment and organizational or managerial performance.
Willekens and Bauwhede (2008) carried a research study on disclosure on corporate governance in the European Union. Specifically they examined the determinants of the level of disclosure on corporate governance practices among European listed companies in the time period preceding the adoption of the European Union recommendations and Action Plan. Using ratings on corporate governance disclosure issued by an independent rating agency they found that ceteris paribus, the level of disclosure is lower for companies with higher ownership concentration; is higher for companies from common-law countries; and increases with the level of working capital accruals. Further, to practitioners and policy makers, the results of the study not only suggested that a single mandatory corporate governance disclosure requirement across Europe is abundant, and may perhaps even be inefficient, but also indicated which companies are expected to be least willing to comply with such a mandatory requirement, and are expected to need more monitoring. However, even though the results from their study indicate that corporate governance disclosure or transparency is better in common-law environments, they do not provide evidence on whether this also leads to superior development in the equity capital markets. They therefore suggested more research before a clear causal link between certain institutions, equity market development and economic growth can be established.

ACCA (2009) published a study on analysis of corporate governance disclosures by Australian Securities Exchange top 50 companies (ASX top 50). Assessment of research findings was based on a series of criteria developed by Net Balance Foundation and ACCA. The criteria for evaluating organizations covered eight key areas, guided by the
ASX corporate governance principles and guidelines which includes; Mission and values, Key relationships, Governance, Board structure, Ethical decision-making, Integrity, Key impacts and adherence to codes and guidelines. Using disclosure index the study shows a large variation in performance by different companies. ASX Top 50 disclosures on corporate governance had improved compared to its previous study with an overall ASX Top 50 score of 49% and a top 10 average of 66%. The disclosure on board structure was rated best which was linked to the requirements for provision of certain information for shareholders by law. Organizations received the lowest average scores in the ‘Codes and guidelines’ criteria group, indicating that many organizations are not making use of the standards and guidelines available to them to assist in reporting and transparency. The study recommended the organization to disclose organizational vision and values, including how corporate governance is considered an important element of internal behaviour; give a clear indication of key stakeholders groups and engagement measures, including what dialogue takes place relating to corporate governance; provide an overview of the governance structures in place to manage non-financial issues and performance including any board committees and their composition and submit as well as individual board member responsibility; detail any remuneration structures in place; explain the structure and composition of the board, including independence of directors and separation of CEO and Chairman nominations as well as audit, nomination and risk committees and their remits; provide a detailed description of the organizational code of conduct, including policy on areas such as whistleblowing, anti bribery and facilitation payments. The report should also explain how compliance with various codes is monitored; identify key organizational risks both financial and non financial and the
process by which they were selected. Report should also include an explanation of how these risks are subsequently managed and mitigated and highlight any standards or guidance used to report on corporate governance issues.

2.5 Critical Review of Major Issues

The main issue under review in this research study is the assessment of corporate governance disclosure in the annual reports. The aspects of corporate governance disclosures considered include: board attributes, accounting and auditing, relations and communication with company’s shareholders, social responsibilities reporting and companies codes of ethics. These are centered on corporate governance indicators suggested by previous research and best practice, such as recommendations by capital market act (cap 485A) - Guidelines on corporate governance practices by public listed companies in Kenya (2002); prudential guidelines by CBK (2006) and Principles for Corporate Governance in Kenya by CCG-Kenya.

2.5.1 Board Attributes

Shareholders and other users require information on individual board members and key executives in order to evaluate their experience and qualifications and to assess any potential conflicts of interest that might affect their judgment. They also require information relating to the work of the board in order to assess its effectiveness. According to CMA (2002), every public listed company should be headed by an effective board to offer strategic guidance, lead and control the company and be accountable to its shareholders.
appointment of a minimum of two directors for every company incorporated under the Act. However, due to the special nature of deposit-taking institutions which gives them an added responsibility of safeguarding the interests of the depositors, the Central Bank of Kenya requires all institutions licensed under the Banking Act, to have at least five directors. Pfeffer (1972) and Zahra and Pearce (1989), noted that board size plays a vital role in affecting the value of a firm. The role of a board of directors is to discipline the CEO and the management of a firm so that the value of a firm can be improved. A larger board has a range of expertise to make better decisions for a firm as the CEO cannot dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO. A research study by (2008) showed that only 40 percent of the sampled companies disclosed fully its board size in their annual reports.

2.5.1.3 Board Leadership (CEO Duality)

Guidelines on corporate governance practices by public listed companies in Kenya recommend that, every public listed company should as a matter of best practice separate the role of the chairman and chief executive in order to ensure a balance of power and authority and provide for checks and balances (CMA, 2002).

Agency theory predicts the potential for opportunistic behavior under CEO duality that is, a dual leadership structure where the CEO acts simultaneously as the chair of the board of directors.

As chairman of the board, the CEO may have ample opportunities to pursue opportunistic behavior and may, for example, appoint board members that will be less actively involved in monitoring (Solomon 2007).
2.5.1.4 Board Composition

Melis (2005) highlights lack of board independence as one of the series of serious corporate governance failures which led to Parmalat's crisis. He found that one of the non-executive directors in Parmalat was clearly not independent as he had been working in Parmalat as a senior manager since 1963. Board independence reflects the extent to which the board is independent of company management. CMA (2002) recommend that the board should compose of a balance of executive directors and non-executive directors (including at least one third independent and non-executive directors) of diverse skills or expertise in order to ensure that no individual or small group of individuals can dominate the boards' decision-making processes. From an agency theory perspective, the presence of independent non-executive directors on company boards should help reduce the notorious conflicts of interest between shareholders and company management, as they perform a monitoring function by introducing an independent voice to the boardroom. However according to Solomon (2007), presence of inside directors helps in achieving the appropriate balance between outside and inside directors on boards, which is an essential ingredient for an effective board.

Moloi (2008) found that 5 percent of the companies sampled partly disclosed about board composition. That is, these companies mentioned that directors consists of both executive and non-executive directors, however they did not reveal the nature of their directors.

2.5.1.5 Directors Remuneration

The directors' remuneration should be sufficient to attract and retain directors to run the company effectively and should be approved by shareholders. Every board should
annually disclose in its annual report, its policies for remuneration including incentives for the board and senior management, particularly the following: Quantum and component of remuneration for directors including non executive directors on a consolidated basis in the following categories; executive director’s fees; executive director’s emoluments; non- executive director’s fees; non- executive director’s emoluments (CMA, 2002).

2.5.1.6 Board Committees

The board should establish relevant committees and delegate specific mandates to such committees as may be necessary. The board shall specifically establish an audit and nominating committee. Board committees assist the board and its directors in discharging the duties and responsibilities, however the board remains accountable. Board committees with formally determined terms of reference, life span, role and function constitute an important element of the process and should be established with clearly agreed upon reporting procedures and written scope of authority. As a general principle there should be transparency and full disclosure from the board committee to the board, except where the committee has been mandated otherwise by the board (CMA, 2002). The committee should include among others; Audit committee, Risk management committee and Nomination committee.

Moloi (2008) noted a very high disclosure on various committees by all the companies across the sectors. On average he found that committees are disclosed to the extent of 85 percent.
2.5.2 Accountability and Audit

The board should present financial statements that meet international accounting standards. The statements should be objective and understandable. Also, the board should establish a formal and transparent arrangement for shareholders to appoint independent auditors at each annual general meeting. To strengthen the audit function, an audit committee of at least three independent and non-executive directors should be established. The chairman of the audit committee should be an independent and non-executive director. The board should disclose in its annual report whether it has an audit committee and the mandate of such committee. Internal audit function should also be independent of the activities they audit and should be performed with impartiality, proficiency and due care. Details of the activities of audit committees, the number of audit committee meetings held in a year and details of attendance of each audit committee member at such meetings should be disclosed in an informative way in the annual reports (CMA, 2002).

PSCGT (1999), recommend that the board of directors shall ensure that persons who are qualified, reliable and independent of the board and management are appointed as auditors. In light of developments elsewhere, the code recommends extension of auditor's duties in regard to reporting on whether the company has financial and other risk management controls.

A study by Djodat (2009) examined the level of disclosure on corporate governance practices among big companies in emerging markets. Using disclosure index, he found that items pertaining to easily accessible information and items that are required by
national regulations are more often disclosed than rather specific items which are not commonly requested. The study revealed that auditing and corporate responsibilities were the least disclosed. Relating to many auditing issues, companies tend to rely on their external audit; however he noted that it is very important to disclose the interaction, the appointment, rotation, duration and any internal audits and control processes. The study recommended for the establishment of internationally recognized standards for corporate governance disclosure that all listed companies should follow.

Contrary to Djodat (2009), Moloi (2008) found a high disclosure level on relationship between internal and external auditors. Specifically the annual reports included information such as internal and external independence, attendance of audit committee meetings by internal and external auditors and the organizational structure of how these two auditors relate to one another. In addition, all the companies had an attachment of audit report in their annual reports. He also found that 72.5 percent of the companies fully disclosed information relating to the relationship risk management and internal audit divisions. These companies demonstrated how the internal audit division relates to the risk management division.

2.5.3 Relations and Communication with Company’s Shareholders

CMA (2002) recommends that as a matter of best practices a board of a public listed company should ensure equitable terms of all shareholders of the same class. All shareholders should receive relevant information on the company’s performance through distribution of regular annual reports and accounts, half-yearly results and quarterly
results. Every shareholder should have a right to participate and vote at the general shareholders meeting including the directors election. Companies, as a matter of best practice, are encouraged to organize regular investor briefings and in particular when the half-yearly and annual results are declared or as may be necessary to explain their performance and promote interaction with investors. The board should disclose their material interests in transactions on matters affecting the corporation. According to Moloi (2008) study, the level of disclosure in the area of relationship and communication with shareholders on average is 70 percent. He found that the annual reports included subsections dealing with shareholders. These subsections contained information such as the attendance of annual general meetings, the declaration of dividends to shareholders, and the contents of booklets used for communicating with company’s shareholders. Also disclosed in the annual reports was information relating to the duties and powers of company shareholders.

2.5.4 Corporate Social Responsibility and Environmental Reporting

The Board should recognize that it is in the enlightened self-interest of the corporation to operate within the mandate entrusted to it by society and shoulder its social responsibility. For this reason, a corporation should not fulfill its social responsibility by short-changing beneficiaries or customers, exploiting its labour, polluting the environment, failing to conserve resources, neglecting the needs of the local community, evading taxation or engaging in other anti-social practices. The Board of Directors should monitor the social responsibilities of the company and promulgate policies consistent with the company’s legitimate interests and good business practices. In particular, the
Board of Directors should promote fair, just and equitable employment policies, promote and be sensitive to the preservation and protection of the natural environment, be sensitive to and conscious of gender interests and concerns, promote and protect the rights of children and other vulnerable groups, enhance and promote the rights and participation of host communities PSCGT (1999). Moloi (2008) noted that by disclosing this information, the community will be informed on a company's view on maintenance of the environment in which it operates. Potential employees on the other hand can judge whether the company do not invests in human capital or not. His study revealed low disclosure level in this area.

Stacey (2007) study on environmental reporting and the impacts of mandatory reporting requirements suggest that there is a positive relationship between the level of publicly disclosed pollution emissions of companies and the level of voluntary environmental disclosures made in company annual reports for the twenty-five sample companies she used.

2.5.5 Codes of Ethics

PSCGT (1999) recommends a company to implement a code of ethics as part of corporate governance. This code of ethics should have the following objectives: To set out the values, ethics and beliefs upon which the company premises its policies and behavior, to set down and promulgate the basic ethical principles to be observed, to secure adherence to uniform principles of good practice, to promote and maintain confidence in the integrity of the corporation, to harmonize the concepts of social
responsibility, public accountability and profitability, to prevent and resist the development of undesirable practices, to lay down standards for personal and corporate behaviour. Moloi (2008) research study showed a 62.5 percent level of disclosure on this issue.

2.6 Theoretical Framework

Agency Theory and corporate governance disclosure

This theory recognizes that corporate governance rules affect those who make decisions, in whose interests the decisions are being made, and what information gets disclosed. They affect the discretion with which managers operate, the magnitude of the threats that are posed by takeovers, and the nature of the conflicts of interests that arise. This theory also advocates for protecting majority and minority shareholders against management in firms with diverse share ownership and critically examined the role of outside directors, auditing committee, executive compensation, inside trading and corporate governance disclosures. This model sort to answer pertinent questions that continue to boggle the minds of many researchers and which are central to this study such as who external directors are, how they are connected with the firm, What is meant by “outside” or “independent” and how these outside directors make educated decisions while they are not connected to the firm. This model also critically examines the role of auditors in terms of conflicts of interest, liability, rotation and specific issues like reporting of stock options. On corporate disclosure, the theory investigates whether the markets provide the correct incentives for disclosure by management and if disclosure requirements attenuate incentives for gathering information, weaken “price discovery” function and the
importance of the price discovery function. The theory puts a review of disclosure rules for inside trading, disclosure rules in the presence of takeover and disclosure rules for purchases by large shareholders. Other issues articulated by the theory include: institutional independence and scope of a securities and exchange commission, the integration of regulation, common law versus civil law approaches, the inherent problems in designing corporate governance in the absence of an effective judiciary, regulation, political intervention, and the undermining of corporate governance in the context of developing country experiences.

According to Mallin (2007), corporate governance development has been affected by theories from a number of disciplines, including finance, economic, accounting, law, management, and organizational behavior. Of the many theories, agency theory has mostly affected its development and provides the theoretical framework within which it rest. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. This raises the possibility of conflicts of interests between two. For example, the agent may not act in the best interest of the principal, or may act only partially in the best interests of the principal. This can be inform of the agent misusing his power for pecuniary or other advantage, and the agent not taking appropriate risks in pursuance of the principal’s interests.

In the context of the firm, the major problem is existence of information asymmetry between the principals (owners) and the agents (managers). Agency theory is based on the ground that agents have more information than principals and that this information asymmetry adversely affects the principals’ ability to monitor effectively whether their
interests are being properly served by agents. More so, the principal may not be in a position to evaluate and determine the value of the decisions made by the agent. Agent may take advantage to pursue his own objectives at the expense of the principal.

The agency theory models the relationship between the principal and the agent. In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder) Lundholm and Winkle (2006); Barako (2006); Healy and Palepu (2001); McKinnon and Dalimunthe (1993). An example of this situation is where a team of managers may have inside information on the positive future of a firm and take action and make decisions that will mostly benefit them at the potential expense of the principal. Meek et al. (1995) defined voluntary disclosure as “disclosure in excess of requirements – represents free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports”.

Lundholm and Winkle (2006) reported that voluntary disclosure can be utilized to reduce the information asymmetry problems. They noted that conflicts arise when managers make decisions either to disclose or not to disclose certain information. This conflict generally occurs because of the information irregularity problem.

Healy and Palepu (2001) reported that outside investors have less information compared to managers with regards to a firm’s performance. In the real business world where the market is not perfectly-efficient, they believed that managers use financial disclosure policy to balance the decisions that they make and communicate to the outside
shareholders. This illustrates that information irregularity problems influence the voluntary disclosure policy of the company.

McKinnon and Dalimunthe (1993) found favorable support that Australian diversified firms are more likely to voluntarily disclose segment information if they have minority interests in their subsidiary companies. This result indicates that disclosure of segment information provides incentives to align the interests between managers and minority interests and is therefore likely to reduce information irregularity problems. Barako et al (2006) observed that, one way of reducing agent-principal conflicts is disclosures of information about the firm. Therefore, in this research, corporate governance disclosure presents an excellent opportunity to apply agency theory, in the sense that managers who have better access to a firm’s information than external owners and investors can make credible and reliable communication to the market to enhance the value of the firm by reducing the costs of the agency relationship.
2.7 Conceptual Framework

2.7.1 Variables relationship in the conceptual framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
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<tbody>
<tr>
<td>1. Board attributes</td>
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<tr>
<td>2. Accountability and Audit</td>
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<tr>
<td>3. Relations and communication with company’s shareholders</td>
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<tr>
<td>4. Corporate social responsibility and environmental reporting</td>
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<td>5. Codes of ethics</td>
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<tr>
<th>Intervening factors</th>
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<tr>
<td>1. Political Intervention</td>
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<tr>
<td>2. Company policies</td>
</tr>
<tr>
<td>3. Dispersion of shareholding</td>
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<tr>
<td>4. Ownership structure</td>
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<tr>
<td>5. Company size</td>
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</tbody>
</table>

Good Corporate Governance Related Benefits to a Company

1. Harmony of the concepts of social responsibility
2. Public accountability and profitability
3. Promotion of desirable practices
4. Lays down standards for personal and corporate behavior
5. Easy way of meeting company targets
6. Protecting majority and minority shareholders against management in firms with diverse ownership
7. Promote fair, just and equitable employment policies

Corporate governance disclosure checklist

Outcome

Corporate governance disclosure level

Source: Researcher (August, 2010)
In ensuring the basis for an effective corporate governance, the corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The rights of shareholders and key ownership functions should be protected and facilitated and equitable treatment of shareholders including minority and foreign shareholders is a key priority of good corporate governance structure. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

While promoting the role of stakeholders in corporate governance, the corporate governance framework recognizes the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. Furthermore, disclosure and transparency in corporate governance ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Spelling out responsibilities of the board ensures that there is strategic guidance of the company, effective monitoring of management by the board, and that the board is accountable to the company and the shareholders.
2.7.2 Corporate Governance Indicators (independent variables)

Corporate governance indicators that should be examined for assessing the level of disclosure have been identified in the conceptual framework in figure 2.1. These indicators are:

**Board attributes**, under board attributes, board responsibilities, board size, board leadership, board composition, board remuneration and board committees will be analyzed. In total, a maximum of 17 disclosure items will be analyzed. The higher the disclosure of these items the higher is the overall disclosure level.

**Accounting and auditing**, information such as relationship between internal and external auditors, audit report with audit opinion among others will be assessed. Again, the more information disclosed in respect to this, the higher is the overall disclosure level.

**Relations and communication with shareholders**, the assessment will be based on information such as the shareholders participation in its activities, information clearly outlining the duties and powers of the company’s shareholders among others. The more the information disclosed, of this information, the higher the overall disclosure level.

**Corporate social responsibility** information regarding social investment spending, environmental reporting and employment equity will be assessed.

**Code of ethics** assessment of whether the annual report contain a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and to all who deal with it will be carried out. The higher the amount of information disclosed in respect of these variables in the annual reports the higher is the level of corporate governance disclosure and vice versa. Each of these variables has been discussed in detail in section 2.5.
2.7.3 Corporate Governance Disclosure Level (Dependent variable)

A corporate governance disclosure index based on annual report disclosures will be developed to rate each company’s corporate governance disclosure level. Derivation of this index will be centered on corporate governance indicators suggested by previous research and best practice, such as recommendations by capital market act (cap 485A) - Guidelines on corporate governance practices by public listed companies in Kenya (2002); prudential guidelines by Central bank of Kenya (2006) and Principles for Corporate Governance in Kenya by CCG-Kenya. A checklist as a research instrument was used in order to analyze the information disclosed in the annual reports and to derive the disclosure index. Keeping objectivity criteria, unweighted scores '0' or '1' was assigned to each item of disclosure depending upon whether it has been disclosed or not in the annual report.

2.8 Summary and Gaps to be filled by the Study

Reviewing literature regarding corporate governance disclosure it becomes clear that most studies concentrated on the determinants that affect voluntary disclosures in the annual reports or the associations between corporate governance characteristics and the level of corporate disclosure. Besides, most of the studies reviewed provide information on disclosure practices concentrating on specific markets and areas of disclosure, and were carried long time ago. Likewise methodologies and research data are rarely transparent. Furthermore, to the best of researcher’s knowledge there is no single study that attempted to analyze the level of corporate governance disclosure in Kenya. Recognizing this deficit in the literature, this study provides a transparent up-to-date
survey and analysis of the level of corporate governance disclosure practices of listed companies in Kenya. Therefore this research aims to contribute to the growing literature, by highlighting the existing weaknesses regarding corporate governance disclosure and raising the awareness of market participants of the internationally accepted disclosure practices.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the general methodology used to conduct the study. It specifies the research design, target population and sample, data collection and the sources, and data analysis.

3.2 Research Design

In order to assess the extent of corporate governance disclosure, this research study used empirical method known as disclosure index. According to Berelson (1952), Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding. For content analysis to be reliable, different people should be able to code information in the same way. Therefore, to avoid the problems pertinent with content analysis such counting words or sentences, this research used disclosure index to measure the level of corporate governance disclosure.

According to Barako (2006), a disclosure index involves the researcher identifying whether an entity does or does not disclose an item in the list. To derive the disclosure index, a thorough analysis of the annual reports was required whereby items disclosed by a specific company were benchmarked with those in the checklist. Keeping objectivity criteria this research study used, unweighted disclosure index methodology where all items of disclosure are considered to be equally important. In this case, the key fact was whether or not a company discloses an item of information in the annual report. If a
company discloses an item of information in its annual report, then ‘1’ was awarded and if the item is not disclosed, then ‘0’ was awarded. The disclosure index for a particular company was then calculated as the ratio of its total score to the maximum score that a company could have achieved. However due the nature of banking and other financial institutions and special regulations by CBK, their disclosure items may exceed others. Therefore, other companies from other sectors were not penalized for non-disclosure of such items.

3.3 Target Population

According to Mugenda and Mugenda (2003), a population refers to an entire group of individuals, events or objects which have common observable characteristics. In the context of this research, the population consisted of the companies quoted and performing in the NSE as at 31 December, 2009. The use of the listed firms is due primarily to data availability and reliability because these are required by law to publish their financial results on annual basis. The choice of companies listed in NSE gave this study a chance to look at all sectors of the economy. All the companies were included in the study. According to NSE market fact file a total of 52 firms were identified and are classified as follows: Agriculture 3; Commercial and services 10; Finance and investment 15 and Industrial and allied 17; Alternative investment market segment 7.

3.4 Data Collection and Procedures

The data to be used in this study will be secondary in nature. The annual reports being the major medium for a company to promote itself will be used in this research. The reports
will be analyzed and specifically the components of statement of corporate governance to extract items of governance disclosed by a specific company. The disclosed items will then be entered in the checklist for each company. The objective of the checklist is to analyze the relevant information of corporate governance disclosed in the annual reports of various companies.

3.5 Data Analysis

Data collected using a checklist will be coded and entered for analysis using the Microsoft Statistical Package for social Sciences (MS SPSS). Descriptive statistics analysis methods will be used. Specifically, mean will be used to assess the level of corporate governance disclosure. Frequencies distribution tables and graphs will be used for the purpose of data presentation.
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the analysis of the data collected from the study. The purpose of the study was to assess the compliance of corporate governance disclosures in the annual reports among the listed companies within Nairobi stock exchange in Kenya. The findings were qualitatively and quantitatively analyzed and presented in the tables and percentage form.

4.2 Quantitative Data Analysis

Quantitative data analysis refers to a scientific method of investigation that is based on the numeric data. The data is presented in form of numbers; numeric values, numeric levels and categories. This is to describe, predict and explain the research findings. This was achieved through collection of numerical data on the observable behavior and subjecting such data to statistical analysis.

4.2.1 Classification of Listed Companies

Table 4.1 Breakdown of the Listed Companies by NSE

<table>
<thead>
<tr>
<th>Sector Category</th>
<th>No. of Companies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Sector</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Commercial Sector</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Finance and Investment Sector</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Industrial and Allied Sector</td>
<td>17</td>
<td>33</td>
</tr>
<tr>
<td>Alternative Investment Sector</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Figure 4.1 Breakdown of the Listed Companies by NSE

According to the table 4.1 above, the sampled listed companies checklists administered by the researcher, the rate of response was the most successful one since the researcher was able to obtain all the annual report information regarding all the listed companies within NSE.

4.3 The Board and its Directors

<table>
<thead>
<tr>
<th>Trade Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>100</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>5</td>
<td>50</td>
<td>5</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>7</td>
<td>47</td>
<td>8</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>12</td>
<td>71</td>
<td>5</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>6</td>
<td>86</td>
<td>1</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>57.7</td>
<td>22</td>
<td>42.3</td>
<td>52</td>
</tr>
</tbody>
</table>
The information on the figure 4.2 shows that 86% of the alternative investment sector companies disclose more information in the organization board and its directors. This is followed by 71% of the listed companies within the industrial and allied sector. The agricultural and finance & investment sector does not disclose much information on organization board and its directors having 0% and 47% respectively while the commercial sector had a 50% disclosure index.

### 4.3.1 The Directors Responsibilities

#### Table 4.3 Directors Responsibilities

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>3</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>9</td>
<td>90</td>
<td>1</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>15</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>17</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>7</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>98</strong></td>
<td><strong>1</strong></td>
<td><strong>2</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>
Figure 4.3 Directors Responsibilities

The information on the table 4.3 indicates that almost all (98%) the listed companies offer to the public information regarding the organizational director’s responsibilities. This ensures that shareholders are provided with high-quality disclosures on the financial and operating results of the entity and that the directors have been entrusted with governing duties.

4.3.2 The Board Size

Table 4.4 Board Size information

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>2</td>
<td>67</td>
<td>1</td>
<td>33</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>10</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>15</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>17</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>7</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>98</td>
<td>1</td>
<td>2</td>
<td>52</td>
</tr>
</tbody>
</table>
The information above show that only the agricultural sector partially (67%) disclose information on the board size while all the remaining sectors (commercial, finance, industrial and alternative investment sector) comprehensively (100%) disclose information on the organization board size. This will help balance both executives and non-executive directors and ensure that independent leadership control within the board is ensured.
4.3.3 The Board Leadership

Table 4.5 Board Leadership

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>1</td>
<td>33</td>
<td>2</td>
<td>67</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>3</td>
<td>30</td>
<td>7</td>
<td>70</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>5</td>
<td>33</td>
<td>10</td>
<td>67</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>5</td>
<td>29</td>
<td>12</td>
<td>71</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>1</td>
<td>14</td>
<td>6</td>
<td>86</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>29</td>
<td>37</td>
<td>71</td>
<td>52</td>
</tr>
</tbody>
</table>

The figure above shows that the level of disclosure on the board leadership is still very poor as 33% of both agricultural and finance, 30% of commercial sector disclose information on their board leadership. The alternative investment sector was poorly represented on the board leadership having 14% disclosure on organizational board leadership in their annual report.
4.3.4 The Board Composition

Table 4.6 Board Composition

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>2</td>
<td>67</td>
<td>1</td>
<td>33</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>7</td>
<td>70</td>
<td>3</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
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<td>80</td>
<td>3</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
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<td>77</td>
<td>4</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>2</td>
<td>29</td>
<td>5</td>
<td>71</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>69</td>
<td>16</td>
<td>31</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.6 Board Composition

The successful dynamics of a Board depends on a combination of skills. The evaluation process identifies individual Directors’ special attributes and their particular contribution to Board deliberations. The information contained in the table above indicates that 80% of the finance and investment sector give information on the Board composition, followed by industrial and allied sector with 77% informational disclosure. Commercial and agricultural sector were represented by 70% and 67% respectively. Only the
alternative investment sector had a very low (29%) disclosure index on their board composition.

4.3.5 The Director Remuneration

Table 4.7 Directors Remuneration

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>2</td>
<td>67</td>
<td>1</td>
<td>33</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>4</td>
<td>40</td>
<td>6</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>8</td>
<td>53</td>
<td>7</td>
<td>47</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>5</td>
<td>29</td>
<td>12</td>
<td>71</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>1</td>
<td>9</td>
<td>6</td>
<td>91</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>38.5</td>
<td>32</td>
<td>61.5</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.7 Directors Remuneration

The information in the table 4.7 above shows that only agricultural and financial sector disclose information related to the organizational directors remuneration represented by 67% and 57% respectively. The research also found out that only 9% of the respondents within the alternative investment sector do provide information relating to director
remuneration while minority (29%) of the industrial and allied sector publish information relating to directors remuneration in the organizational annual report.

4.3.6 The Board Committee

4.3.6.1 The Board Audit Committee

Table 4.8 Board Audit Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>3</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>10</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
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<td>100</td>
<td>0</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
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<td>0</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
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<td>5</td>
<td>71</td>
<td>2</td>
<td>29</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>96</td>
<td>2</td>
<td>4</td>
<td>52</td>
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</tbody>
</table>

Figure 4.8 Information on Board Audit Committee

According to the information obtained in the table above shows that only 71% of the alternative investment sector respondents disclose information on the organizational board audit committee while all (agricultural, commercial finance and industrial sectors)
has 100% disclosure of the organizational audit committee information on their annual report.

### 4.3.6.2 Information relating to Risk Management Committee

Table 4.9 Risk Management Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>100</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>3</td>
<td>30</td>
<td>7</td>
<td>70</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
<td>12</td>
<td>80</td>
<td>7</td>
<td>70</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>5</td>
<td>29</td>
<td>12</td>
<td>71</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
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<td>0</td>
<td>7</td>
<td>100</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>38</td>
<td>32</td>
<td>62</td>
<td>52</td>
</tr>
</tbody>
</table>

The information obtained here shows that only financial sector has 80% disclosure of the risk management committee on their annual report. The agricultural and alternative
investment sector has no information related to the risk management committee. The commercial and industrial sector has only 30% and 29% respectively disclosure on risk management committee on their annual report.

4.3.6.3 Information Relating to Credit Committee
Table 4.10 Credit Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed</th>
<th>No</th>
<th>No as a % of the total assessed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>100</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
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</tr>
<tr>
<td>Industrial and Allied</td>
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<td>0</td>
<td>17</td>
<td>100</td>
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<td>Alternative Investment</td>
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<td>0</td>
<td>7</td>
<td>100</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>15</td>
<td>44</td>
<td>85</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.10 Credit Committee

According to the information on figure 4.10 above all the trade sectors listed by NSE does not disclose information on the organizational credit committee. Only 53% of the finance and investment sector disclose information on their credit management committee.
4.3.6.4 Information Relating to Asset and Liability Committee

Table 4.11 Asset and Liability Committee

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
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<td>100</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
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<td>0</td>
<td>10</td>
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<tr>
<td>Finance and Investment</td>
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<td>47</td>
<td>8</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
<td>0</td>
<td>0</td>
<td>17</td>
<td>100</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
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<td>0</td>
<td>7</td>
<td>100</td>
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<tr>
<td>Total</td>
<td>7</td>
<td>13</td>
<td>44</td>
<td>87</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.11 Asset and Liability Committee

This show that majority of the listed companies does not disclose the organizational asset and liability committee. Only 47% the listed companies in finance and investment sector disclose information on the asset and liability committee.
4.4 Accountability and Audit

Table 4.12 Accountability and Audit

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>Agricultural</td>
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<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
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<td>100</td>
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<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Finance and Investment</td>
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<td>15</td>
</tr>
<tr>
<td>Industrial and Allied</td>
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<td>100</td>
<td>0</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
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<td>52</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>52</td>
</tr>
</tbody>
</table>

The quality of financial disclosure depends significantly on the robustness of the financial reporting standards on the basis of which the financial information is prepared and
reported. Almost all (100%) the trade sectors listed disclose information on the organizational accountability and audit information in their annual report.

4.5 The Relation and Communication with Shareholders

Table 4.13 Relation and Communication with Shareholders

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
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</thead>
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<td>100</td>
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<tr>
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<td>93</td>
<td>15</td>
</tr>
<tr>
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<td>12</td>
<td>15</td>
<td>88</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>100</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>6</td>
<td>49</td>
<td>94</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.13 Relations and Communication with Shareholders
The organizational relations and communication with shareholders refers to the broad range of policies and practices that executive managers and boards of directors use to manage themselves and fulfill their responsibilities to investors and other stakeholders. It is therefore noted that over 80% of the respondents do not disclose information on the organization relations and communication with the shareholders.

4.6 The Corporate Social Responsibility

Table 4.14 Corporate Social Responsibility

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
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</thead>
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<tr>
<td>Agricultural</td>
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<td>33</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>6</td>
<td>60</td>
<td>4</td>
<td>40</td>
<td>10</td>
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<td>47</td>
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<tr>
<td>Alternative Investment</td>
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<td>Total</td>
<td>29</td>
<td>55.8</td>
<td>23</td>
<td>44.2</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.14 Corporate Social Responsibility
Corporate social responsibility is the obligations a company has to the community, particularly with respect to charitable activities and environmental stewardship. The information obtained shows that (agricultural - 67%, commercial – 60%, finance – 67%, and industrial – 53%) trade sectors indicate information on the corporate social responsibility. Only the alternative trade sector had 29% disclosure on corporate social responsibility in their annual report.

4.7 The Organizational code of Ethics

Table 4.15 Code of Ethics

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Yes as a % of the total assessed in each sector</th>
<th>No</th>
<th>No as a % of the total assessed in each sector</th>
<th>Total</th>
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<tbody>
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<td>67</td>
<td>2</td>
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<td>Commercial</td>
<td>6</td>
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<td>Finance and Investment</td>
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</tr>
<tr>
<td>Industrial and Allied</td>
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<td>59</td>
<td>7</td>
<td>41</td>
<td>17</td>
</tr>
<tr>
<td>Alternative Investment</td>
<td>2</td>
<td>41</td>
<td>5</td>
<td>59</td>
<td>7</td>
</tr>
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<td>Total</td>
<td>30</td>
<td>57.7</td>
<td>22</td>
<td>42.3</td>
<td>52</td>
</tr>
</tbody>
</table>

Figure 4.15 Code of Ethics
The cornerstone of any company’s ethics program is its set of values. The key mechanisms for articulating those values are codes of conduct and standards of business. It is therefore noted that from 67% of the agricultural, 70% of the commercial, 67% of the finance and 59% of the industrial sector has information on the code of ethics in their annual report. Only 41% of the listed companies in alternative investment sector shows that some information on the companies code of ethics in their annual report.

4.8 Consolidated Report on Organizational Disclosure

4.8.1 Corporate Governance reporting

Table 4.16 Assessment of corporate governance reporting among the listed Companies

<table>
<thead>
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<tbody>
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<td></td>
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<tr>
<td>Organizational Board and Its Directors</td>
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<tr>
<td>Directors Responsibilities</td>
<td>51</td>
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<tr>
<td>Board Size</td>
<td>51</td>
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<td>Board Leadership</td>
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<td>Board Composition</td>
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<tr>
<td>Directors Competencies</td>
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<td>Directors remuneration</td>
<td>20</td>
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<tr>
<td>Board Audit Committee</td>
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<tr>
<td>Risk Management Committee</td>
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<td>Credit Committee</td>
<td>8</td>
</tr>
<tr>
<td>Asset and Liability Committee</td>
<td>7</td>
</tr>
<tr>
<td>Accountability and Audit</td>
<td>52</td>
</tr>
<tr>
<td>Communication with Shareholders</td>
<td>3</td>
</tr>
<tr>
<td>Social responsibility</td>
<td>29</td>
</tr>
<tr>
<td>Code of Ethics</td>
<td>30</td>
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</table>
The Figure and table 4.16 above shows the consolidated assessment of corporate reporting results in the annual report among the NSE listed companies. It is relatively clear that the NSE listed companies comprehensively disclose information regarding accounting the Audit (100%), Board size (98%), Directors responsibilities (98%) and Board Audit Committee (96%). On this regard the highest level of disclosure was seen in Accounting and Audit information. It is again clear that some listed companies disclose very little information relating to the shareholders communication (6%) and Board
leadership (29%). The other areas that reflected a low disclosure were mix of skills and directors competencies (40%), Directors remuneration (38.5%), and risk management committee (38%). In this regard, the lowest disclosure was seen in the shareholders communication.
CHAPTER FIVE: SUMMARY OF FINDINGS AND CONCLUSION

5.1 Introduction

The main objective of this study was to assess whether corporate reporting in the annual report of the listed companies provide useful information for user decision making. This chapter presents the study results in terms of introduction, major findings answers to research questions, study recommendation, conclusion and room for further study.

5.2 Major Findings of the Study

The study indicated that the majority of the listed companies examined adhere to good corporate governance disclosure practices which advance the usefulness of information provided in their annual report.

The study also noted that the listed companies reflect high level of disclosure statements in their annual report particularly in areas relating to the activities and responsibilities of the board committees, directors, accountability and audit, shareholdings, social responsibility and the company code of ethics.

The study also noted that the listed companies reported very poorly on the risk management disclosure. Only the finance and investment sector had comprehensive information on the risk management committee.

It emerged from the study that certain areas of disclosure require a lot of improvements particularly on communication and relation with the shareholders reflects low level of
disclosure statements in their annual report which would hinder users in making informed investment decisions.

The study found out that the board size is the number of members on the board. Majority of the listed companies by NSE exclusively disclose information on the company board size that shows a wider expertise and skills to improve the effectiveness of the board in decision making.

5.3 Answers to Research Questions
The findings of the research study and stated questions in chapter one were tested against the findings and the following observations were made

5.3.1 To what extent are aspects of board attributes and roles disclosed in the annual reports?
The organizational board attributes and roles in the annual report is the cornerstone in which the success of any organizations is based. The result showed that 86% of the alternative investment sector companies disclose more information in the organization board and its directors. This is followed by 71% of the industrial and allied sector. The commercial and investment sectors disclose 50% and 47% disclosure respectively while the agricultural sector does not disclose much information on organization board and its directors on their annual report.

The core of corporate governance system is the organizational director’s responsibilities who is ultimately accountable and responsible for the performance and affairs of the
company. The research indicates that almost all (90%) the listed companies offer to the public information regarding the organizational director’s responsibilities. This ensures that shareholders are provided with high-quality disclosures on the financial and operating results of the entity and that the directors have been entrusted with governing duties.

It has also been noted that only the agricultural sector partially (67%) disclose information on the board size while all the remaining sectors (commercial, finance, industrial and alternative investment sector) comprehensively (100%) disclose information on the organization board size.

The level of disclosure on the board leadership is still very poor as 33% of both agricultural and financial sector, 30% of commercial sector discloses information on their board leadership. The alternative investment sector was poorly represented on the board leadership having 14% disclosure of information on the board leadership in their annual report.

The successful dynamics of a Board depends on a mix of management skills. The information obtained indicates that 80% of the finance and investment sector give information on the Board composition, followed by industrial and allied sector with 77% disclosure. Commercial and agricultural sector were represented by 70% and 67% respectively. Only the alternative investment sector had a very low (29%) disclosure index on their board composition.
To ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision-making process. 67% and 53% the listed companies in the agricultural and finance sector respectively disclose information on the mix of skills and directors competencies. The commercial and industrial sectors partially disclose information on the mix of skills and directors competencies having 40% and 41% respectively while the alternative investment sector does not disclose any information on the organizational mix of skills and directors competencies in their annual report.

The agricultural and financial sectors disclose information related to the organizational directors remuneration represented by 67% and 57% respectively. Only 9% of the respondents within the alternative investment sector do provide information relating to director remuneration while 29% of the industrial and allied sector publishes information relating to directors remuneration in the organizational annual report.

Today’s global business leaders depend on significant risk management committee that the company adopt to assess the risk level. The financial sector has 80% disclosure of the risk management committee on their annual report. The agricultural and alternative investment sector has no information related to the risk management committee. The commercial and industrial sector has only 30% and 29% respectively disclosure on risk management committee on their annual report. The listed companies by NSE do not disclose information on the organizational credit committee. Only 53% of the finance and investment sector disclose information on their credit management committee.
5.3.2 What is the level of disclosure on accountability and audit issues in the annual reports?

The study revealed that accounting and audit issues in the annual report of the listed companies were the most disclosed. The quality of financial disclosure depends significantly on the basis on which the financial information is prepared and reported. Relating to many auditing issues, companies tend to rely on their accounting and audit information to access the liquidity level and to convey investment decisions to potential investors. On this regard the research established that almost all (100%) the listed companies within NSE disclose information on the organizational accountability and audit on their annual report.

5.3.3 To what extent and aspects of communication with shareholders disclosed in the annual reports?

The research established that the extent in which shareholders receive relevant information on the company’s performance is one way of facilitating informed investment decision making process. According to the information provided in the annual report of the listed companies shows that less than 20% of the respondents disclose information on the organization relations and communication with the shareholders in their annual report to explain their performance and promote interaction with investors.
5.3.4 What is the level of disclosure on corporate social responsibility and environmental issues?

Companies should monitor the social responsibilities and promulgate policies consistent with the company's legitimate interests and good business practices. A large number of respondents felt that corporate social responsibility is the obligations a company has to the community, particularly with respect to charitable activities and environmental stewardship. The information obtained shows that (agricultural - 67%, commercial - 60%, finance - 67%, and industrial - 53%) sectors indicate information on the corporate social responsibility. Only the alternative investment sector had 29% disclosure on corporate social responsibility in their annual report.

5.3.5 To what level are aspects of codes of ethics disclosed in the annual reports?

Every organization has an obligation to set out the values, ethics and beliefs, to set down and promulgate the basic ethical principles to be observed, to secure adherence to uniform principles of good practice, to promote confidence in the organizational integrity. The study established that 67% of the agricultural, 70% of the commercial, 67% of the finance and 59% of the industrial sector has information on the code of ethics in their annual report. Only 41% of the listed companies in alternative investment sector show some information on the company's code of ethics in their annual report.

5.4 Conclusions

Various efforts to improve corporate governance practices in Kenya, including disclosure, are beginning to bear fruit. Much has been done to improve the legal and
regulatory framework. The key regulators have recently reviewed and continue to improve their specific frameworks. The composition of boards and their performance are improving. Recruitment of non-executive directors is more rigorous. The areas of strategy and risk management, which have generally been ignored has continued to gain more attention. Committees, and particularly audit committees, are a common feature. In the financial and investment sector, they are a legal requirement. Shareholders are being recognized and respected. Disclosure is improving. In the financial sector, it is fairly elaborate, and timely. Listed companies are beginning to issue statements of corporate governance in their annual returns. The organizational voluntary code of ethics and social responsibility disclosure has become the cornerstone of every organizational performance public evaluation. Communication channels and relations with shareholders should be supported taking into account the complexity and globalization of financial markets and the impact of technology.

5.5 Recommendations

The study recommends that the board should compose of a balance of executive directors and non-executive directors of diverse skills or expertise in order to ensure that no individual or small group of individuals can dominate the boards’ decision-making processes.

The directors’ remuneration should be sufficient to attract and retain directors to run the company effectively and should be approved by shareholders. Every board should
annually disclose in its annual report, its policies for remuneration including incentives for the board and senior management.

The board should establish relevant committees and delegate specific mandates to such committees as may be necessary. The board shall specifically establish an audit and nominating committee. Risk management committees should assist the board and its directors in discharging the duties and responsibilities to determine terms of reference, life span, role and function constitute an important element of the process and should be established with clearly agreed upon reporting procedures and written scope of authority.

The audit and accountability committee should present financial statements that meet international accounting standards. The statements should be objective and understandable. Also, the board should establish a formal and transparent arrangement for shareholders to appoint independent auditors at each annual general meeting.

The board should disclose in its annual report whether it has an audit committee and the mandate of such committee. Internal audit function should also be independent of the activities they audit and should be performed with impartiality, proficiency and due care.

The study also recommends that all shareholders should receive relevant information on the company’s performance through distribution of regular annual reports and accounts. Every shareholder should have a right to participate and vote at the general shareholders meeting including the directors election.
The Board of Directors should monitor the social responsibilities of the company and promulgate policies consistent with the company’s legitimate interests and good business practices within their annual report.

The study also recommends that the company board should promote fair, just and equitable employment policies and be sensitive to the preservation and protection of the natural environment, be sensitive to gender interests and promote the rights and participation of host communities in their annual report.

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

Executive remuneration should be subject to the recommendations of a Remuneration Committee made up entirely or mainly of non-executive directors and an Audit Committee, comprising of at least three non-executives, should be established.

Shareholders need to be aware of the number, type and duties of outside board and management positions that any individual director holds. The purpose of this information is to make a judgment on the ability of directors and key executives to meet all of their commitments; thus the number as well as the type and duties of the position.
5.6 Suggestions for further Study

The following areas are suggested for further research:

(i) The role of technology in the management of corporate governance disclosure within the NSE listed companies

(ii) Relationship between corporate governance disclosures and firm’s performance

(iii) The extent of corporate governance and voluntary disclosure by listed firms in Kenya
REFERENCES


———(2010), King report on corporate governance for South Africa, Johannesburg.


Stacey, S. (2007). Enviromental reporting and the impacts of mandatory reporting requirements, Unpublished Theses, RMIT University, Australia

Transparency_Disclosure_by_Russian_Banks%2005_10_28.pdf


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<td></td>
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<td>1.3</td>
<td>Board leadership</td>
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<td>Does the annual report have a statement on separation and distribution of powers chair and chief executive?</td>
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<td>1.4</td>
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<td>CMA.3.1.2</td>
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<tr>
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<td>1.4.2</td>
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1.5.2 Does the annual report contain total remuneration for executive directors?

1.5.3 Does annual report contain total fees for non-executive and independent directors?

### 1.6 Board committees

<p>| | |</p>
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<td>1.6.1</td>
<td>Does the annual report contain information relating to the audit committee?</td>
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<td>1.6.2</td>
<td>Does the annual report contain information relating to nominating committee?</td>
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<tr>
<td>1.6.3</td>
<td>Does annual report contain information relating to risk and management committee?</td>
</tr>
<tr>
<td>1.6.4</td>
<td>Does the annual report contain information relating to credit committee?</td>
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<td>1.6.5</td>
<td>Does the annual report contain information relating to asset and liability committee?</td>
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### 2 ACCOUNTABILITY AND AUDIT

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<tr>
<td>2.1</td>
<td>Does the annual report reflect information relating to the relationship between internal and external auditors?</td>
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<td>2.2</td>
<td>Does the annual report contain the audit report with audit opinion?</td>
</tr>
<tr>
<td>2.3</td>
<td>Does the annual report contain a statement on mix of skills and competencies of audit committee?</td>
</tr>
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<td>2.4</td>
<td>Does the annual report contain a statement on the number of executive, non-executive and independent audit committee?</td>
</tr>
<tr>
<td>2.5</td>
<td>Does the annual report disclose in an informative way details of</td>
</tr>
<tr>
<td></td>
<td>the activities of audit committees?</td>
</tr>
<tr>
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<tr>
<td>2.6</td>
<td>Does the annual report disclose in an informative way details of the number of meetings held?</td>
</tr>
<tr>
<td>2.7</td>
<td>Does the annual report disclose in an informative way details of attendance of each audit committee?</td>
</tr>
</tbody>
</table>

### 3 RELATIONS AND COMMUNICATION WITH COMPANY'S SHAREHOLDERS

| 3.1 | Does the annual report contain information regarding the shareholders participation in its activities? |
| 3.2 | Does the annual report contain information clearly outlining the duties and powers of the company's shareholders? |
| 3.3 | Does the annual report contain information relating to how communication with shareholders is conducted? |

### 4 CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENTAL REPORTING

| 4.1 | Does the annual report contain information regarding social investment spending? |
| 4.2 | Does the annual report contain information regarding environmental reporting? |
| 4.3 | Does the annual report contain information regarding employment equity? |

### 5 CODES OF ETHICS

| 5.1 | Does the annual report contain a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and to all who deal with it? |

* Applies to banks and other financial institutions in addition to other committees.
APPENDIX II- LIST OF NSE LISTED AND PERFORMING COMPANIES

Agriculture

1. Rea Vipingo Ltd.
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

1. Access Kenya Group
2. Marshalls E.A. Ltd.
3. Car & General Ltd.
4. Kenya Airways Ltd.
5. CMC Holdings Ltd.
6. Nation Media Group Ltd.
7. TPS (Serena) Ltd.
8. ScanGroup Ltd.
10. Safaricom Ltd.

Finance and Investment

1. Barclays Bank of Kenya Ltd.
2. CFC Stanbic Bank Ltd.
3. Housing Finance Ltd.
4. Centum Investment Ltd.
5. Kenya Commercial Bank Ltd.
7. Pan Africa Insurance Holdings Co. Ltd
10. Standard Chartered Bank Ltd.
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
15. Kenya Re-Insurance Ltd.

**Industrial and Allied**

1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
4. Carbacid Investments Ltd.
5. E.A. Cables Ltd.
6. E.A. Breweries Ltd.
7. Sameer Africa Ltd.
8. Kenya Oil Ltd.
9. Mumias Sugar Company Ltd.
10. Unga Group Ltd.
11. Bamburi Cement Ltd.
12. Crown berger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengan Ltd.

**Alternative investment market segment**

1. City Trust
2. Eaagads
3. Express
4. Williamson Tea Kenya
5. Kapchorua Tea co.
6. Kenya Orchads
7. Limuru Tea co.