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**AN ASSESSMENT OF USER PERCEPTIONS ON THE USEFULNESS OF
CORPORATE ANNUAL REPORTS OF LISTED COMPANIES IN KENYA**

RUPINDER KAUR SAGOO

**SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF COMMERCE AT STRATHMORE UNIVERSITY**



SCHOOL OF MANAGEMENT AND COMMERCE

STRATHMORE UNIVERSITY

NAIROBI, KENYA

JUNE, 2016

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ABSTRACT

The purpose of this study was to examine the perceived importance and usefulness of corporate annual reports in Kenya. In addition, the study determined the factors affecting usefulness of corporate annual reports of listed companies in Kenya. It attempted to find the useful sources of information to users. An explanatory and descriptive research design was adopted for this study. The Primary data was collected through questionnaires that were administered to investment managers, lenders and Chief Financial Officers of the listed companies in Kenya. Descriptive statistics were used to determine the useful sources of information to users. In addition, simple regression analysis was used to determine the relationship between personal factors and usefulness of annual reports. In addition, a chi square test was done to identify if any of the personal factors had a relationship with usefulness. The analysis indicated that the user groups surveyed in the study rely mainly on information from the annual reports of listed companies in Kenya for making investment decisions. Further, the analysis also revealed that respondents found the traditional annual reports most useful in making informed decisions. These traditional statements include income statement, balance sheet and cash flow statements. The Auditor's report was also perceived to be of importance. The least ranked items in the annual reports included notes to financial statements and chairman's statement. In terms of the qualitative features used to measure usefulness of annual reports, timeliness, credibility, adequacy and relevance were found to be associated with usefulness. However, understandability was found not to be associated with usefulness of annual reports. The regression analysis revealed personal factors (gender, age, highest educational qualification, experience, accounting and financial qualification and type of user) had no significant relationship with usefulness of annual reports. However, the chi square tests revealed work experience, type of user and age were significant and had an association with usefulness. The findings may give some indications to researchers, preparers and policy makers. For example, policy makers may need to think about what kind of information to be included in the annual reports. The study attempted to fill the knowledge gap regarding the usefulness of annual reports of listed companies in Kenya.

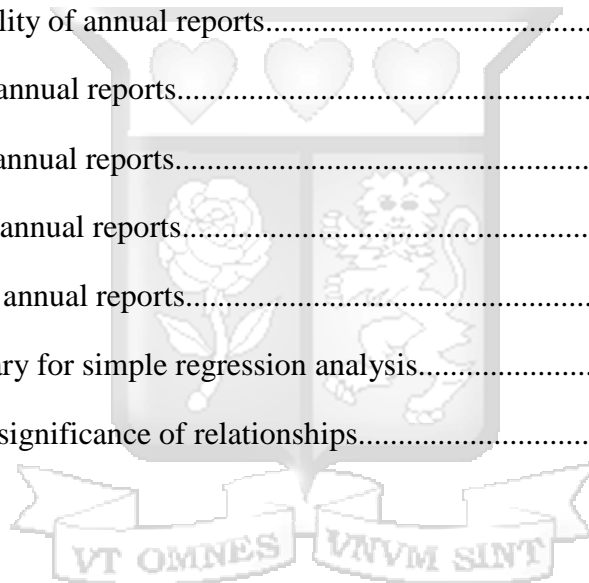
Table of Contents

| | |
|---|------|
| DECLARATION | i |
| ABSTRACT..... | ii |
| List of tables..... | v |
| List of abbreviations and acronyms | vi |
| ACKNOWLEDGEMENTS | vii |
| DEDICATION | viii |
| CHAPTER ONE | 1 |
| INTRODUCTION | 1 |
| 1.1 Study of Background | 1 |
| 1.2 Research Problem | 4 |
| 1.3 Research Objectives..... | 5 |
| 1.3.1 General Objective | 5 |
| 1.4 Research Questions..... | 5 |
| 1.5 Scope of the study..... | 6 |
| 1.6 Justification of the Study | 6 |
| CHAPTER TWO | 7 |
| LITERATURE REVIEW | 7 |
| 2.1 Introduction..... | 7 |
| 2.2 Theoretical Framework..... | 7 |
| 2.2.1 Decision Usefulness Theory | 7 |
| 2.2.2 Expectancy Theory | 8 |
| 2.2.3 Legitimacy Theory..... | 8 |
| 2.3 Empirical Review..... | 9 |
| 2.3.1 Perceived significance of corporate annual reports as an information source | 9 |
| 2.3.2 Factors affecting the usefulness of corporate annual reports | 15 |
| 2.4 Conceptual Framework..... | 17 |
| 2.5 Summary | 17 |
| CHAPTER THREE | 19 |
| RESEARCH METHODOLOGY..... | 19 |
| 3.1 Introduction..... | 19 |
| 3.2 Research Philosophy..... | 19 |
| 3.3 Research design | 20 |

| | |
|---|----|
| 3.4 Target Population and Sampling..... | 20 |
| 3.5 Data collection | 21 |
| 3.6 Data analysis | 22 |
| 3.7 Operationalization of the variables | 23 |
| 3.8 Validity of the research instrument..... | 24 |
| 3.9 Reliability of the research instrument | 24 |
| CHAPTER FOUR..... | 26 |
| PRESENTATION OF FINDINGS | 26 |
| 4.1 Introduction..... | 26 |
| 4.2 Response Rate..... | 26 |
| 4.3 Demographic Analysis..... | 26 |
| 4.4 Perceived usefulness of corporate annual reports | 27 |
| 4.4.1 Perceived Importance of Different Sections of Annual Reports..... | 29 |
| 4.4.2 Opinions of users regarding non-financial information | 31 |
| 4.4.3 Qualitative characteristics to determine usefulness of annual reports | 34 |
| 4.5 Factors influencing the usefulness of annual reports | 40 |
| CHAPTER FIVE | 44 |
| SUMMARY, CONCLUSION AND RECOMMENDATIONS | 44 |
| 5.1 Introduction..... | 44 |
| 5.2 Summary of research objective and methodology..... | 44 |
| 5.3 Discussion of the findings..... | 44 |
| 5.3.1 Most important source of information | 44 |
| 5.3.2 Factors affecting the usefulness of annual reports | 46 |
| 5.4 Conclusions..... | 47 |
| 5.5 Implications of the study..... | 48 |
| 5.6 Limitations of the study | 49 |
| 5.7 Recommendations..... | 49 |
| REFERENCES | 50 |
| APPENDIX I: QUESTIONNAIRE | 60 |
| APPENDIX II: Companies listed on the NSE..... | 66 |
| APPENDIX III: List of Investment Banks/Stock Brokers in Kenya..... | 68 |
| APPENDIX IV: List of Commercial Banks in Kenya..... | 69 |

List of tables

| | |
|--|----|
| Table 4.1: Age of Respondents..... | 25 |
| Table 4.2: Years of Experience..... | 26 |
| Table 4.3 Most useful source of information for users | 27 |
| Table 4.4: Perceived useful of different parts of annual report..... | 28 |
| Table 4.5: Opinions of users on MD&A Report..... | 30 |
| Table 4.6: Usefulness of Sustainability reports..... | 31 |
| Table 4.7: Understandability of annual reports..... | 34 |
| Table 4.8: Timeliness of annual reports..... | 35 |
| Table 4.9: Credibility of annual reports..... | 36 |
| Table 4.10: Adequacy of annual reports..... | 37 |
| Table 4.11: Relevance of annual reports..... | 38 |
| Table 4.12 Model summary for simple regression analysis..... | 40 |
| Table 4.13: Determining significance of relationships..... | 40 |



List of abbreviations and acronyms

NSE – Nairobi Securities Exchange

MD & A – Management Discussion and Analysis

CFOs – Chief Financial Officers



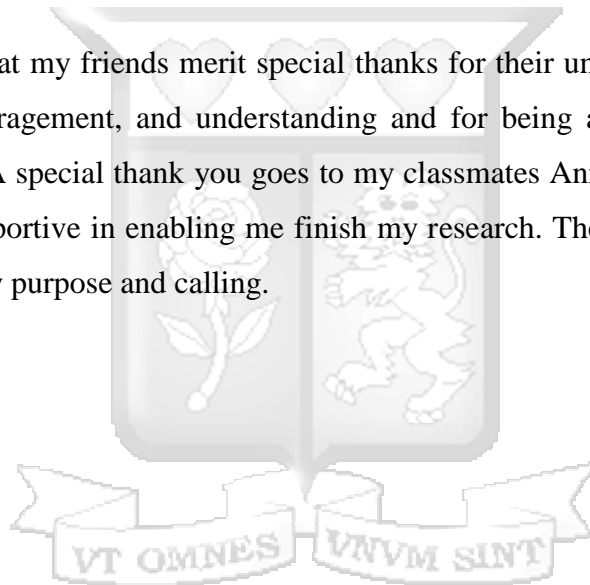
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DEDICATION

I dedicate it to my father Harchand Singh and my mother Amarjit Kaur for believing in me and being supportive.



CHAPTER ONE

INTRODUCTION

1.1 Study of Background

Communication in organizations is not a natural process, but is constructed from a perspective which represents management interests - especially in the area of corporate reporting (Buchanan and Huczynski, 2010). An annual report is regarded as the main medium by which companies disseminate information to external users (Firth, 1979). Such reports also assist market participants in making informed decisions, assuming these reports reflect the commercial reality of the reporting entities (Samuels, 1993). Even in more sophisticated markets, where there are other reliable corporate sources of information, annual reports are considered the main source of information (Botosan, 1997; Epstein and Pava, 1993).

Corporate financial reports play a significant role in national economic growth and are considered as an effective tool providing useful information required by various users. The broad area of financial reporting offers a number of fundamental measures of company performance for accounting periods which in turn assists its users to make rational decisions (Irungu, 2013). For the stock market to operate efficiently and effectively, it should satisfy the capital providers' needs. In this sense, capital providers seek good opportunities to add capital value, while market operators hope to raise further capital through attracting investors for operation to make profit (Keyur, 2012). Thus, without accounting information, the market could not operate effectively and the potential investors may be reluctant to trade because they lack sufficient information to assess the value of investment (Kothari, 2001). Disclosure can be defined as the communication of financial as well as non-financial information which consists of all details regarding business activities that are disclosed either mandatory or voluntary to the financial reports users (Keyur, 2012).

Users are not a homogeneous group; thus the same information cannot equally satisfy all users as they have differing financial skills, interests, and purposes (Rudkin, 2007). Also, new user expectations are created by the continuing sophistication of business practices and technology (Rohan, 1996). Technology differs with the level of market development and infrastructure of the jurisdiction. User perception is referred to as viewing the information in

different ways according to skill, interest and purpose. Many people base economic decisions on their relationships to and knowledge about business entities and thus are potentially interested in the information provided by financial reports. Potential users include investors, lenders, suppliers and creditors, employees, customers, government and their agents and members of the public (IASB, 2013). There are likely to be trade-offs between the interests of the company and those of its stakeholders; similarly there are also likely to be trade-offs between the interests of different groups of stakeholders (Hendry, 2004).

The notion that service quality is an overall evaluation similar to attitude has been supported by Parasuraman et al. (1985). Their research findings revealed that regardless of the type of service, customers use the same general criteria in arriving at an evaluative judgment about service quality. They also support that customer perception of service quality stems from a comparison of what they feel service firms should offer, with their perceptions of the actual performance. Therefore, in the same sense, the general criteria proposed by Parasuraman et al. (1985) can be used to determine the usefulness of the corporate annual reports. This is because usefulness is based upon the opinions and satisfaction of the users.

Like most Commonwealth countries, the Kenyan Companies Act (Chapter 486, Laws of Kenya), is based on and is substantially the same as the UK Companies Act of 1948 (Ogola, 2000). The Kenyan Companies Act sets the general framework for financial accounting and reporting by all companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. The Sixth Schedule of the Act sets out the disclosure requirements in respect of the balance sheet and the profit and loss account. The Kenya Companies Act of 2015 is largely copied from the UK Companies Act of 2006 and some of the changes include a new regime allowing for preparation and circulation of summary financial statements.

Financial reporting usefulness has been one of the most important research areas in accounting. Since the seminal study of Ball and Brown (1968), extant accounting literature has documented well the usefulness of accounting earnings, book value and other items in the financial reports both in the U.S. as well as internationally (Graham and King, 2000; Chen, 2001). While most of these studies provide evidence that the annual report is an important source of information, they also show a low association between accounting

numbers and stock prices or returns. Some studies even report a decreasing trend in the value-relevance of financial statement information in the U.S. over the past decades (Francis and Schipper, 1999). Many prior studies empirically establish the usefulness of financial reports or other financial information by the statistical association between the financial information and stock prices or returns.

Several previous studies have found that there is a low level of financial disclosure in corporate reports in relation to the needs of different user groups (McNally et al., 1982; Wallace, 1987; Al-Mulhem, 1997; Bartlett and Chandler, 1997; Al-Hussaini, 2001; Naser, Nuseibeh, and Al-Hussaini, 2003; Mirshekary and Saudagaran, 2005; Ngangan et al., 2005; Chatterjee, 2007). Stainbank & Peebles (2006) reported a lack of agreement between those who prepare annual reports and those who use them in terms of the relative importance of various items reported. The evidence suggests that preparers do not place the same value on information as users do, with users placing a higher value on the free flow of information. Interestingly, users from developed and developing countries rate the importance of disclosure items differently (Ngangan et al., 2005).

Some prior studies surveyed accountants' and preparers' views (Abu-Nassar & Rutherford, 1995; Chandra & Greenball, 1977; Firth, 1978) while others have focused on broader user-groups such as investors, financial analysts, managers, academics, tax officials, auditors, and regulators (Abu-Nassar & Rutherford, 1996; Ngangan, Saudagaran, & Clarke, 2005; Nicholls & Ahmed, 1995; Wallace, 1988). These studies examine how users of corporate annual reports view those reports. While most of these studies were conducted in developed countries, there is a growing interest in developing countries. IASB (2006) suggests that annual reports should possess the qualitative characteristics of understandability, relevance, supportability, balance and comparability. These characteristics tend to make annual reports useful.

In summary, prior studies done (Dunne et al, 2008; Saudagaran, 2004; Nagangan, 2005; Capstaff et al, 2001) report that cultural differences, the nature of capital market, the level of economic development, tax regulations and legal systems account for the differences of the perceptions of the users of financial information. However, some studies showing that the change to IFRS improves value relevance (Bartov et al., 2005; Harris & Muller, 1999;

Horton & Serafeim, 2006), and others that it worsens value relevance (Lin & Chen, 2005; Schiebel, 2006), while yet others find no conclusive evidence either way (Niskanen et al., 2000).

1.2 Research Problem

The process of communication requires that the receiver be informed. If there is no understanding by the receiver of the material being communicated, no informational value is contained therein, and the communication has no value. A series of accounting scandals such as Enron and WorldCom have rocked the financial markets and shaken investor confidence and have further increased the importance of financial reporting. Thus regulators, financial analysts, consumers, employees and other relevant stakeholders have all contributed to the creation of milestones in corporate reporting - by demanding better ways of tracking the real value of a corporation (Katheen, Sterling, and Liming, 2004).

While there is some overlap in information needs between different users, there are unique demands as well. It can be agreed that these unique demands may be as a result of differing financial skills, interests and purposes of the users (Rudkin, 2007). The needs of users and the role of corporate disclosure in decision making processes are controversial issues, as they are not known with any degree of certainty (Benjamin and Stanga, 1977; and Schipper, 2007). In its report, the AICPA Special Committee on financial reporting (1991) mentioned that increased competition and rapid advances in technology are resulting in changes in the reporting schema adopted by firms, with consequent changes in the extent to which the needs of users of financial reports are met.

The Nairobi Securities Exchange in Kenya is the largest stock market in Eastern Africa and is the regional hub for trade and finance (Central Bank of Kenya, 2006). The increasing amount of focus on and growing significance of the NSE acts as an important venue for attracting foreign investments. It is therefore necessary that annual reports are useful to many users. This is possible by providing users with the necessary disclosures that they require through annual reports.

A study in 2008 was conducted by the International Federation of Accountants (IFAC) on the current perspectives and directions of financial reporting. The study revealed that despite the

efforts of the accounting profession and corporate communities to improve the communication between management and shareholders corporate governance and the process of preparing financial reports had clearly improved during the five years. However, the financial reports did not become more useful according to the perceptions of their users. Conflicting findings arise due to differences in the geographical context of the studies undertaken despite the same accounting standards being used. Users of annual reports lack confidence in the accounting information being presented in the annual reports. For example, the collapse of Imperial Bank and Dubai Bank may affect the perception of users regarding the usefulness of annual reports. Thus, the usefulness of annual report remains an issue, despite the increased disclosure requirements and the increased information contents contained in annual reports. This research aimed to find whether annual reports in Kenya are useful to their users and to find the factors that affect the usefulness.

1.3 Research Objectives

1.3.1 General Objective

To assess user perceptions on the usefulness of corporate annual reports of listed companies in Kenya.

This study sets the following objectives:

1. To assess the extent of usefulness of corporate annual reports of listed companies to users in Kenya.
2. To establish the factors influencing the usefulness of corporate annual reports in listed companies in Kenya.

1.4 Research Questions

This study aims to answer the following questions;

1. To what extent are corporate annual reports of listed companies useful to users in Kenya?
2. Which factors influence the usefulness of corporate annual reports in listed companies in Kenya?

1.5 Scope of the study

This research focuses on the annual reports of companies listed on the NSE. The study also focuses on three user groups in collecting the primary data, that is, investment managers, CFOs and lenders. The purpose of selecting the investment managers, lenders and CFOs is because they are the primary users of annual reports (IASB, 2013). Other users of annual reports such as employees, government and suppliers have been identified as the secondary users by the IASB (2013).

1.6 Justification of the Study

One of the issues that may concern the users of annual corporate reports is the style of language with which such reports are written. Depending on which group the user belongs to, the style of language may have a material effect on the readership and the understandability of the information contained in the different sections of the report (Epstein & Pava, 1993). Such a study might shed light on how corporate report preparers and regulators can improve the current corporate reporting practices as well as provide richer descriptions of some aspects of financial accounting. The surveyed user groups of corporate annual reports could be provided with simpler reports in a summarized form. This would assist users groups make confident and informed decisions since the lengthy annual reports are not of substantial help in making investment decisions. For example, investors in particular may not have the time to sit down and read the annual report in detail considering annual reports of today can be lengthy. Therefore, summary annual reports can benefit such users who may not have much knowledge in accounting. Such reports would still enable them make informed decisions.

Furthermore, users might get confused by having excessive information and some of the information might never be read by users. Policy makers may need to think about what kind of information to be included in the annual reports.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview on the theoretical framework and the empirical research relevant to this study and its research objectives. The chapter begins with the theoretical framework outlining the theories relevant to the study followed by the empirical review guided by the research objectives in chapter one.

2.2 Theoretical Framework

An analysis of the theories advocating for the usefulness of corporate annual reports and difference in user perceptions are explained below.

2.2.1 Decision Usefulness Theory

The rationale for the identification of users and uses of corporate financial information is based on “decision-usefulness” theory (Staubus, 1961, 1977). The theory attempts to describe accounting as a process of providing the relevant information to the relevant decision makers (Gray et al., 1996). The development of decision-usefulness theory can be traced to the middle of the twentieth century when financial statements were criticized as of being of little use to the user in making economic decisions (Edwards, 1989). The usefulness of financial information was, therefore, estimated by how it aids users in making rational decisions and a user perspective of the objective of financial reporting also made it easier to choose accounting treatments. Despite some criticism (Puxty and Laughlin, 1983; Page, 1990) this has become fundamental to information disclosure and its theoretical and practical implications play a significant role in the history of financial accounting and standard setting in developed countries (Staubus, 2000; Sharma and Iselin, 2003).

Decision usefulness theory is relevant for this study since financial reporting is based on it. The criterion around which financial reporting and related academic research has been centered is decision usefulness. In 1973 the then recently-formed FASB provided more support for decision usefulness by creating a Conceptual Framework designed to rationalize the standards it promulgated. Thus, the theory provides a basis on the financial reporting environment as it plays a major part in this research.

2.2.2 Expectancy Theory

Expectancy theory (Vroom, 1964) has been used as the theoretical framework for many studies in organizational behaviour and psychology as it provides an explanation of an individual's behavioural intentions. It includes two interrelated models: the valence model and the force model, which incorporate three factors -- valence, instrumentality, and expectancy.

Valence, defined as all possible affective orientations toward outcomes (Vroom, 1964), has been interpreted as attractiveness, importance, desirability or anticipated satisfaction with outcomes (Van Eerde and Thierry, 1996). Instrumentality refers to the perceived likelihood that a first-level outcome (here, participation in the standard-setting process) would lead to second-level outcomes (here, the resulting benefits of participating in the standard-setting process). The valence model incorporates valence and instrumentality since it predicts that the attractiveness of a first-level outcome (participation) is a monotonically increasing function of the sum of the products of the valences of associated second-level outcomes (benefits of participation) and the strength of the perceived relationship between the first level outcome and its associated second-level outcomes (Vroom, 1964).

Therefore, users and preparers choose accounting information which they feel will benefit them. For example, users such as individual investors will invest in companies that are performing well and are highly profitable expecting higher returns on their investment in terms of dividends. on the other hand, preparers choose accounting standards that will show the company as performing better than its competitors expecting investors to invest in their company.

2.2.3 Legitimacy Theory

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). The link between accounting research and legitimacy theory revolves around the annual report and related disclosures. The use of this focus on the annual report has been discussed in some detail and concludes that the focus is justifiable (Gray et al., 1995). Their argument is that the annual report is not only a statutory document but also is in fact “the most important document in terms of the organization’s construction of its own social imagery”. The annual report “uses the tools of management, marketing and communication theory to construct a picture of the organization” (Stanton and Stanton, 2002). This “picture” is

viewed by a wide audience and provides organizations with an effective method of managing external impressions. This view is also supported by Mangos and Lewis (1995) who state that “corporate social responsiveness as demonstrated within the content of corporate annual reports is both a visible and measurable social influence”.

It must be acknowledged, however, that the annual report is a merely a statutory document is not universally accepted. Zeghal and Ahmed (1990) have criticized the narrow approach taken by many researchers as their “research indicates that the description provided by the annual reports of social information disclosure by a company may not be complete”. They claim that companies use many different media to make disclosures, and the selection of media and message are much targeted. By focusing on only one document source researchers may be drawing incomplete conclusions. Zeghal and Ahmed (1990) stated that one cannot judge corporate performance on social responsibility solely on the basis of information disclosed in the annual reports. Social information disclosure may also take place through company staff newspapers, press releases, paid newspaper advertisements, television and radio advertising and company brochures. Legitimacy theory posits that for a corporation to continue to exist it must act in congruence with society's values and norms (Dowling & Pfeffer, 1975).

2.3 Empirical Review

This section provides with findings of different scholars and authors in relation to the objectives of this study.

2.3.1 Perceived significance of corporate annual reports as an information source

A comparative comment on the US, Australian and New Zealand situations is provided by the study done by Anderson and Epstein in 1997. They used the pretested questionnaire developed by Epstein and Pava (1993), with minor changes, and distributed it to shareholders in the USA, Australia and New Zealand. Their results suggest that, as a source of information, the annual report was the most important to US investors, but that Australian and New Zealand investors felt that the advice of stockbrokers was more important (ranked third by the US shareholders). The US investors ranked technical analysis second (ranked fifth by Australians and New Zealanders). The Australian and New Zealand investors ranked financial newspapers and magazines second (ranked third by the US respondents). Anderson and Epstein (1997) argue that

US investors prefer to do their own analyses and they point out that there is an increasing use of 'discount brokers' in the USA.

The information contained in financial statements is necessary and useful but not sufficient to evaluate the financial condition of a company (Daniels and Daniels, 1991). Though user groups of annual reports in developing countries feel that there has been some improvement in reporting over the years, they wish to receive more information than is currently provided (Abu-Nassar and Rutherford, 1996; Hatif and Al-Zubaidi, 2000; Naser and Nuseibeh, 2003). Most users want an annual report to contain other information which increases their understanding (Dye and Bowsher, 1987). Users of annual reports wanted highly detailed disclosures (Hay and Antonio, 1990). Further users desired information on future prospects, company products, divisional performance, the provision of management audit reports, and publication of quarterly reports (Anderson, 1981). Financial press and newspaper reports were considered to be the most important source of information other than the annual report as reported by Benston (1976).

Examination of the perceptions of US investors about various aspects of annual corporate reports was carried out by Epstein and Pava (1993). One of the main objectives of their study was to measure the change in the shareholders' perceptions about annual corporate reports over two decades. The authors did this by comparing the result of their study with the earlier results of the Epstein (1975) study, which used the same methodological approach to measure individual investors' perceptions about the quality of annual corporate reports. Epstein and Pava (1993) found that individual investors significantly rely on the annual reports more than they did previously and rely significantly less on the advice of stockbrokers.

In the United Kingdom, Lee and Tweedie (1975) found the chairman's report to be the most widely read followed by the profit and loss account. This was attributed to the simplicity of the chairman's report, which elucidates the more technical information contained in other parts of the report. Bartlett and Chandler (1997) re-examined the private shareholders' usage of annual corporate reports and justified their study by the fact "that much has changed within the financial reporting environment" since the Lee and Tweedie (1975) study. The authors found that the most widely read section of the annual corporate report is the chairman's statement, a result similar to that found by Lee and Tweedie previously. Interestingly, the auditor's report was read the least by individual shareholders. There was also a noticeable decline found in the

shareholders' interest in the profit and loss account and balance sheet from the time of Lee and Tweedie (1975) study. An expected result of the Bartlett and Chandler's (1997) study is the association between the rate of usage and degree of importance that individual shareholders place on each section of the annual report. Bartlett and Chandler also disclose that the majority of respondents in their sample desired less information in the form of a summary report rather than the annual report itself.

A study in Hong Kong by Chen and Hsu (2005) presents findings that indicate that, although Hong Kong investors do use annual reports, they rank the usefulness of alternative information (historical information, company news and advice) higher than that supplied by annual reports (Chen & Hsu 2005). Furthermore, the Hong Kong investors perceived relevance as a more important qualitative characteristic than reliability.

From the different sections of the annual report, the authors reveal that American individual investors read and use the income statement and balance sheet more than other parts of the annual report (Epstein and Pava, 1993). Finally, Epstein and Pava (1993) document the individual investors' demand for more financial disclosure in the annual reports. For example, they demand disclosure of any pending litigation, unasserted claims, budgeted income for the coming year, and restating statements using current values. They also demand more non-financial information, such as independent evaluation of management's effectiveness, reasons for the change of auditor, and statement of audit committee responsibility.

Focusing on what is important to Saudi investors, Abdelsalam (1990) highlights that it is information about the future of the company as well as information about directors that was perceived to be important. Abdelsalam (1990) reports that the vast majority of respondents in his survey indicated that they read the annual reports and that the profit and loss account was the most important part of the annual report. Ba-owaidan (1994) also found the profit and loss account to be the most influential part of the annual report followed by the balance sheet in Saudi Arabia.

The perceptions of the users of annual corporate reports in Saudi Arabia were examined by AlRazeen & Karbhari (2004). The focus was on the use and importance of the seven different sources of corporate information contained in the reports. The sample comprised of five major

user groups, namely; individual investors, institutional investors, creditors, government officials and financial analysts. The data was collected through questionnaires. In comparison with previous research efforts elsewhere around the world, this study found that the balance sheet and income statement are the most important sections of the annual report. The board of directors' report was found to be the least popular.

Management commentary and non-financial information in New Zealand is equally significant in an annual report as that of financial statements as suggested by Teixeira (2004). The objective of management commentary is to present an explanation by management of the financial statement outcomes by taking the entity's operating environment as the basis. Management commentary can be incomplete and biased if it does not report information in regard to negative aspects together with positive ones. The author differentiates between the purpose of financial statements and management commentary by stating that financial statements should only report outcomes together with the measurement and recognition policies that are used to measure these outcomes. On the other hand, management commentary should focus on identifying and describing the main business, together with operational and strategic factors facing an entity.

Based on a perception that investors at an individual level have been largely ignored in the investigation of investor demand for social information, Epstein and Freedman (1994) conducted a survey in New York to determine whether individual investors demanded social information and, if they did, what type of information they required. The authors found that individual (non-institutional) shareholders demanded reporting of certain aspects of social activities, with strong demand for information about product safety and quality, and information relating to environmental activities. The authors provided a view that their results gave support to the results of a number of previous studies which document a stock market reaction to social disclosures. Other researchers who examined the demand for corporate social disclosure by single groups of users include Buzby and Falk (1978), Rockness and Williams (1988) and Tilt (1994). Buzby and Falk (1978) surveyed mutual fund directors to determine if social information was considered in their investment decision. Although the subjects indicated that some social information was useful, eight of the nine categories of social information were not considered to be as important as six selected financial items.

The value of narrative information to users of annual reports is well documented in accounting literature (see, for example, Beattie, 1999; Rutherford, 2002, Beattie, McInnes and Fearnley, 2004). Previous studies in the UK (e.g., Lee and Tweedie, 1981; Bartlett and Chandler, 1997) show that narrative sections of annual reports, including the chairman's statement are the most read by both sophisticated and unsophisticated investors. Empirical research using US and Canadian data shows similar results. For example, Abrahamson and Amir (1996) documented that information provided in the president's letter was useful in identifying firms with better than expected future performances. Rodgers and Grant (1997) found that the Management Discussion and Analysis (MD&A) section of annual reports provides the largest proportion of information cited by sell-side analysts in their reports, constituting almost twice as much information as basic financial statements. Additionally, Clarkson, Kao and Richardson (1999) revealed that MD&A sections of reports are a source of both new and useful information to sell-side financial analysts, suggesting that narrative information is important to sophisticated users. Similarly, Barron and Kile (1999) also found that high quality MD&A disclosures are associated with less error and dispersion in analysts' earnings forecasts.

Desoky (2010) in his study in Egypt found that individual investors considered electronic sources of financial information as the most important, followed by specialized newspapers and magazines, and corporate annual reports, respectively.

Alzarouni et al. (2011) examined the usefulness of financial reports to users in the United Arab Emirates (UAE). A questionnaire was distributed to major external users of financial reports. They indicated that users in the UAE consider corporate annual reports to be the most important source of information.

In a recent study, Al Sawalqa (2012) examined the importance of different Jordanian corporate financial information sources in investment decision-making. Ninety-four Jordanian individual investors were surveyed. He found that Jordanian individual investors ranked corporate annual reports as the most important source of information for the purpose of their investment decision-making. This was followed by published daily share prices, corporate Web sites, newspapers and magazines, advice of friends, discussion with company staff, stockbrokers' advice, and tips and rumours, respectively.

A website usage interrogation method to measure the download frequency of the major items in corporate annual reports was used by Rowbottom and Lymer (2007), a method made possible by the fact that annual reports are broken down into downloadable 'chunks' on the websites. Based on a sample of 15 UK companies, the authors find that the most frequently downloaded items by all users (not distinguishing between types of annual report reader) are the compulsory financials. The least downloaded items include the chairman's statement, the environmental report and the chief executive's review. The Rowbottom and Lymer (2007) study uses a cross-sectional sample of 15 companies.

Accounting narratives have also been found to be useful in predicting bankruptcy. For example, Tennyson, Ingram and Dugan (1990) and Smith and Taffler (2000) investigated the relevance of accounting narratives in predicting company failure and found that narrative are useful in predicting which companies would fail. The US Securities and Exchange Commission (SEC, 2002), for example, extended disclosure requirements in the MD& A section because it was felt that such information is useful to users of the annual report. In the context of the UK, the Accounting Standards Board (ASB) advocated for mandatory Operating and Financial Review (OFR). Consequently, the ASB's 2005 reporting standard OFR was made a mandatory under Statutory Instrument (S.I. 2005/1011). However, this was repealed by the Companies Act 1985 (OFR) (Repeal) Regulations 2005. Further importance of narratives is evident from the requirements of the European Union Accounts Modernization Directive (EU AMD, 2003) which now incorporates most of the information formerly required by ASB (2005). The increasing proportion of the UK annual reports dedicated to narrative information is a further reflection of the increasing importance of narratives. A survey by Arthur Andersen in 1996 and 2001, for example, found that a large proportion of annual report pages dedicated to narrative disclosures increased from 45% in 1996 to 57% in 2001.

Nevertheless, Baker and Haslem (1973), Chang et al. (1983), Wallace (1988), Yusoff and Henefaf (1995) and Yuen et al. (2009) have shown that annual reports have provided inadequate information to the users. They concluded that the available information on the performance of companies' annual reports is poor and the financial information required by different types of users is different. Buzby (1974) also argued that many items were inadequately disclosed and there has been a gap between the users' needs of information and the actual information supplied

by companies' annual reports. Ryan (1990) stated that voluntary disclosure information in annual reports has increased. However, Haw et al. (2000) and Hooks et al. (2002) found that in actuality many annual reports introduce limited amount of information. A lot of voluntary items, which stakeholders believe to be important or even essential, are not being disclosed in the actual annual reports. Therefore, the agreement between the importance of relative items ranked by stakeholders and the actual disclosure level was small and there is an opportunity for expanding the extent and improving the quality of voluntary disclosure information in annual reports of listed companies. The relevance of non-financial information is also considered by Martinez (2007) who found that a substantial proportion of an analyst's report includes non-financial information.

Overall, the above prior studies reveal varied results. The inconsistent outcomes with regard to the information sources useful in decision making could be due to the fact that the previous studies were conducted in different developed and developing countries at different times and among different types of users.

2.3.2 Factors affecting the usefulness of corporate annual reports

The main purpose of Chen and Hsu's (2005) study was to examine perceptions of individual investors about the usefulness of the annual report and other information sources in Hong Kong. The results indicated that the perceived usefulness of annual reports is influenced not only by investor features such as the education level, investment experience, type of shareholding and investment horizon, but also by the type of firms in which they invest. Finally, individual investors in Hong Kong desire additional information, in particular relevant non-financial information, to be disclosed in annual reports to assist them in investment decision making.

It should be noted that investors often find it difficult to get the time to sit down and read annual reports (Scott and Smith, 1992). Hence, "financial highlights" section of annual reports has considerable value to users of financial information and specifically to investors. Allen and Ramanna (2013) find that FASB members with backgrounds in financial services tend to propose standards which decrease reliability and increase relevance.

Research on accountants' attitudes towards corporate social and environmental accounting in developed nations was initially undertaken in the 1990s. Empirical evidence from the UK suggest that despite the diversity in members' demographics (age, qualifications and professional

body membership) and the characteristics of employing organizations (size, industry, country of incorporation, country of operation), accountants' attitudes to environmental issues appeared homogeneous (Bebbington et al., 1994). They found that social and environmental practices failed to evolve despite accountants' awareness of environmental issues and a perception that environmental accounting and related issues falls within their ambit. The findings also suggest that accountants were not highly involved in their companies' environmental agenda.

A similar analysis of the perceptions of accountants in Australia showed a lack of consensus among respondents on numerous issues relating to the environment, and that their involvement in dealing with environmental issues remained minimal (Deegan et al., 1996). The findings also indicate that accountants only mildly support the view that environmental issues should be incorporated within business entities' financial statements. The authors argued that if environmental reporting remains voluntary and left to accountants, future disclosures may be minimal.

In the Malaysian context, three prior studies document inconsistent results. While Ahmad (1988) reports that investment analysts rank company annual reports as the most important source of information, Rahman (1999) finds that financial analysts view the visits to companies as the most important. Annual reports are ranked the sixth important by financial analysts in Rahman (1999). In a later study by Rahman (2001), accountants in Malaysia rank the annual report as the second important source of information behind advisory services.

In a study conducted by Rowbottom & Lymer (2010) results suggest that those with greater experience in preparing and using financial accounts adopt different online information preferences. When searching for specific information, experienced users such as professional investors, creditors and accounting firms are found to exhibit greater interest in quantitative financial data. Together with prior research detailing their acquisition of current information via other communication channels (Barker, 2001; Holland, 2006; McInnes et al., 2007) this suggests the corporate Web site is used as a library or reference source of accounting information. Those likely to have less accounting experience such as employees, consultants and unaffiliated companies make significantly more specific requests for narrative reporting information. Here, the online annual reports appear to be used as an easily available source of general company

information, perhaps used to encourage employee advocacy and inform briefings or sales pitches.

A recent study by Jagongo and Mutswenje (2014) investigated the factors that influence the individual investors' decisions at Nairobi Stock Exchange (NSE). An instructed questionnaire was conducted to collect the perceptions of individual investors at the NSE, and found that firms' position and performance, investment returns, economic conditions, goodwill of the firms, accounting information, environmental factors, and risk minimization are the most important factors influencing the individual investors' decisions at the NSE.

A study done by Ramasawmy & Ramen (2009) found that there are significant differences among users in Mauritius assessing the useful accounting information with respect to their level of qualification, working experience and post occupied. Respondents possessing a master degree have found net income reported and policies regarding accounting standards useful in decision making.

2.4 Conceptual Framework

The conceptual framework explains the relationship between the variables. The dependent variable is usefulness which is affected by the independent variables which include: Gender, Age, Highest Educational qualification, Accounting and Financial Qualification, Experience and Type of user.

2.5 Summary

To summarize, a number of research studies (Naser et al., 2003, Al-Razeen and Karbhari, 2004, Al-Ajmi, 2009, De Zoysa and Rudkin, 2010) have investigated the usefulness of corporate information to the users and found annual report to be the primary source of information. In addition, studies reported for developing countries (Abu-Nassar and Rutherford, 1996; Chow and Wong-Boren, 1987; Hatif and Al-Zubaidi, 2000; Hannah and Power, 2007; Martinez, 2007) gave mixed results. Similarities and differences were observed between developed and developing countries. Users in developing countries do not perceive themselves as suffering from difficulties in understanding the information in the annual reports.

In addition, mixed results have also been found on which factors affect the usefulness of annual reports. Some studies (Ramasawmy & Ramen, 2009; Rowbottom & Lymer, 2010) indicate that experience and type of user group affects the usefulness of annual reports. On the other hand, Ramanna (2013) found that users with accounting background affect the usefulness of annual reports. Due to the controversies among users on the usefulness of annual reports, this research attempted to bring across the usefulness of the various sections in the annual report.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the methodologies used for the study that includes: the research design, target population, sampling design, sample size, data collection and data analysis.

3.2 Research Philosophy

Research philosophy is the approach to understand and write the knowledge that is gained by conducting a research. Three types of research philosophies are used in research paper. These are positivism, interpretive and critical (Mackenzie & Knipe, 2006). Each of these philosophies represents a model that is known as the paradigm for research.

In the positivism paradigm, various concepts are used. These concepts are quantification, hypothesis and objective measures. In the positivism paradigm, the researcher works with observable social reality, rationale and experiences to reach an end result of the research. According to Burke (2007), the interpretive paradigm is used to understand the World of human experiences. In the interpretive paradigm, researcher recognizes the impact on research of their background and experience (Burke, 2007). The critical paradigm researcher uses concepts such as distribution of power in society and political ideology (Mackenzie & Knipe, 2006). According to Mackenzie & Knipe (2006), the positivism paradigm is most commonly aligned with quantitative methods of data collection and analysis (Easterby-Smith, Thorpe & Lowe, 2002). On the other hand, the interpretive paradigm and the critical paradigm are aligned with mixture of both qualitative and quantitative methods that is known as mixed method (Burke, 2007).

The philosophy that best fits this research is Interpretivism, also known as interpretivist. It involves researchers to interpret elements of the study and integrate human interest into a study. Accordingly, “interpretive researchers assume that access to reality (given or socially constructed) is only through social constructions such as language, consciousness, shared meanings, and instruments” (Myers, 2008). Development of interpretivist philosophy is based on the critique of positivism in social sciences.

Interpretivism is “associated with the philosophical position of idealism, and is used to group together diverse approaches, including social constructionism, phenomenology and hermeneutics; approaches that reject the objectivist view that meaning resides within the world independently of consciousness” (Collins, 2010). It attempts to understand phenomena through the meanings that people assign to them (Deetz, 1996). The interpretive paradigm is concerned with understanding the world as it is from subjective experiences of individuals. Hence, it is most appropriate in interpreting users’ perceptions on the usefulness of annual reports. This is because perceptions of users are subjective in nature.

3.3 Research design

A survey approach was adopted for this study. Surveys enable the researcher to obtain data about practices, situations or views at one point in time through questionnaires or interviews. Quantitative analytical techniques will then be used to draw inferences from the data regarding existing relationships. The use of surveys permit a researcher to study more variables at one time than is typically possible in laboratory or field experiments, whilst data can be collected about real world environments (Sekaran and Bougie, 2010).

A descriptive design was used to investigate the opinions of investors and lenders of the listed companies in Kenya regarding the usefulness of corporate annual reports. The main idea behind using descriptive research is to better define the opinions and attitudes held by a group of people (Sekaran and Bougie, 2010). In addition, the descriptive design helped to explain the different perceptions that affect the usefulness of corporate annual reports. That is, it explained the relationship between the usefulness of annual reports and demographic variables.

3.4 Target Population and Sampling

The target population is “the entire aggregation of respondents that meet the designated set of criteria” (Burns & Grove 1997). The target population was the primary users of general financial statements as identified by the International Accounting Standards Board (IASB, 2013). The primary users are the investors, lenders and other creditors for whom the general financial statements are intended (IASB, 2013). Investors are many in number and accessing them may have logistic problems. However it has been noted that investment banks/stock brokers offer advice to all investors buying stocks in the securities market. Therefore investment banks/stock

brokers were identified as the representative group for investors. Banks were identified as the category for lenders. Previous studies on users' information needs have excluded individual investors from their analysis (see for example Chandra, 1974; Firth, 1978; McNally, Eng, & Hasseldine, 1982). This exclusion may be justified on the grounds that individual investors are difficult to contact. Another implied reason for excluding individual investors from such studies might be that the individual investors are mainly investing according to the advice of financial analysts and brokers and are not utilizing the information by themselves. Bank officers are the representative of a market economy hence they were chosen to represent the lenders (Mirshekary & Saudagaran, 2005). CFOs were also chosen as a proxy group for corporate annual report users in this study because they were considered to be responsible for making daily decisions affecting business process (Barsky & Catanach, 2011).

The target population for this study was the 65 Chief Financial Officers (CFOs) of listed companies on the Nairobi Securities Exchange. In addition, 21 investment managers from investment banks/stock brokers and 39 bank loan officers who are in charge of loan concessions to companies were chosen to answer the questionnaire.

3.5 Data collection

To answer the research objectives primary data was used. A questionnaire was designed to fulfil the research objectives that provide the primary data. This instrument has been used in prior studies to obtain insights on respondents' views of various annual report disclosures and their usefulness (Ho and Wong 2001; Hooks et al., 2002; Prencipe, 2004; Tooley et al., 2010). It is considered a practical and efficient means of collecting data on perceptions of respondents.

The questionnaire was semi structured and it was divided into two major parts. The first part collected general information on the respondents' demographic profile whereas the second part related to the respondents' opinions regarding the usefulness, importance and understanding of the corporate annual reports. The development of the questionnaire was based on an extensive review of the relevant literature that has investigated the perceptions of different user groups towards the usefulness of financial information in investment decisions. Such literature include Abu-Nasser and Rutherford (1996); Ismail and Chandler (2005); Mirshekary and Saudagaran

(2005); AbdelKarim et al. (2009); DeZoysa and Rudkin (2010); Al-Zarouni et al. (2011); AlSawalqa (2012); Khan and Ismail (2012); Alanezi et al. (2014).

The questionnaire comprised mostly of closed ended questions, as it provides a set of answers from which the respondent must choose (Alattar and Alkhater, 2007; Chatterje et al., 2010). This saves the respondent time and energy to come up with answers. Open ended questions will also be included where the respondent has the opportunity to express their views and opinions that have not been provided in the set of answers. The questionnaires were dropped and picked up from the premises of the sample of respondents. A Likert scale with a five point scale was applicable to the closed ended questions.

3.6 Data analysis

Data analysis can be defined as procedures for analysing data, techniques for interpreting the results of such procedures, ways of planning the gathering of data to make its analysis easier, more precise or more accurate, and all the machinery and results of (mathematical) statistics which apply to analysing data (Tukey, 1961). Data was analysed by means of descriptive and inferential statistics.

The raw data collected from the questionnaires was coded, cleaned, to check on any inconsistency of data, and then data transformation was done where necessary (Sekaran and Bougie, 2010). The descriptive statistics included means, standard deviations, percentages and ranks. Percentages were used to get the information on the demographic profile of users, such as gender, age, work experience and highest educational qualification. Means, standard deviations and ranks were used to identify the useful sources of information contained in the annual reports. In addition, the qualitative characteristics were also analysed by use of means and ranks. It helped to identify the most important characteristics that make up the usefulness of annual reports of listed companies in Kenya.

In the analysis of questionnaire responses across user groups, the Kruskal-Wallis H test (Alzarouni et al, 2011; Al-Razeen, A., & Karbhari, Y., 2004), which is the non-parametric version of the parametric one-way ANOVA test, was used to evaluate the significance of

differences in the sample means. The test was conducted throughout using a 5% confidence level. A significant value for the Kruskal-Wallis H statistic indicates that at least one of the group means is different from at least one of the others. Further, to determine in which groups the difference exist the Mann- Whitney test was carried. The test helps to determine which two groups differ in their perceptions.

To determine the relationship between the dependent and independent variables simple regression analysis was used. The regression model adopted was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where:

Y = Dependent variable (Usefulness)

β_0 = the value of Y usefulness is equal to zero. This is also called the “Y Intercept”.

X = Independent variables

X_1 = Gender

X_2 = Age

X_3 = Accounting qualification

X_4 = Experience

X_5 = Highest Educational qualification

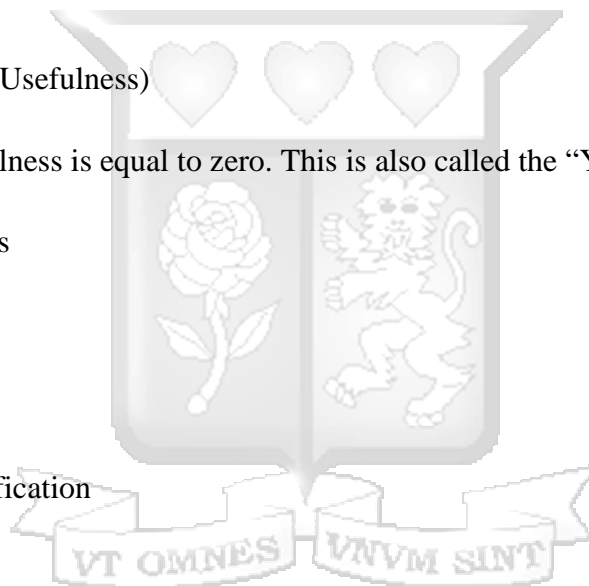
X_6 = Type of user

Chi Square tests were also conducted to establish whether there is a significant association between usefulness and the personal factors. These factors include work experience, highest educational qualification, accounting and financial qualification and type of user group.

3.7 Operationalization of the variables

Independent Variables: User Perceptions

Reliability: the ability to perform the promised service dependability and accurately.



Empathy: is a combination of access defined as approachability and ease of contact, communication is keeping the customers informed in a language they understand and understanding the customer is making an effort to know the customers and their needs.

The perceptions of the users were measured on a Likert scale in the questionnaire. For instance, Where 1= “Strongly Disagree”, 2= “Disagree”, 3= “Somewhat Agree”, 4= “Agree” to 5= “Strongly Agree.”

Dependent Variable: Usefulness of annual reports

Understandability: this means that information must be clearly presented with additional information supplied to users.

Timeliness: making information available in time for it to be useful and relevant.

Credibility: the quality of being believable or worthy of trust.

Adequacy: the state of being sufficient.

Relevance: means that the information is capable of being useful for the economic decisions of users.

The usefulness of annual reports was measured on a Likert scale in the questionnaire. For instance, Where 1= “Strongly Disagree”, 2= “Disagree”, 3= “Somewhat Agree”, 4= “Agree” to 5= “Strongly Agree.”

3.8 Validity of the research instrument

Validity is the accuracy of a measure or the extent to which a score truthfully represents a concept (Zikmund and Babin, 2010b). What is relevant, evidence often depends upon the nature of the research problem. Therefore, this study will try to consider content validity which is the extent to which a measuring instrument provides adequate coverage of the topic under study.

3.9 Reliability of the research instrument

Reliability is defined as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Joppe, 2000). A reliable measuring instrument also contributes to validity. The Cronbach’s Alpha was employed to statistically measure the internal consistency and reliability

of the research instrument ((Al Razeen & Karbhari, 2004; Naser, Nuseibeh, & AlHussaini, 2003). The result indicated a Cronbach Alpha of 0.87. The Cronbach Alpha takes a value between zero and one, where one indicates perfect correlation between the parts of the instrument. Huck and Cormier (1996) indicated that 0.70 is an acceptable level. Botosan (1997) indicated that 0.80 or more is preferable. The respondents' consent was acquired before carrying out data collection. To ensure confidentiality, no personal information was collected such as the name of the respondent.



CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction

This chapter contains the analysis and interpretation of data collected from the respondents. The main objective of this research was to investigate the usefulness of annual reports from users' perspective. In addition, the factors affecting usefulness of annual reports were also determined through regression analysis and Chi Square test. Section 4.3 present findings on the demographic profile of the respondents. Section 4.4 presents the findings on the usefulness of the annual reports; section 4.5 shows the factors affecting usefulness.

4.2 Response Rate

A total of 65 CFOs of the listed companies in Kenya, 40 bank loan officers and 19 investment managers represented by the investment banks/stock brokers were selected to answer the questionnaire. Out of the 124 questionnaires 64 responded, giving a response rate of 51.61%. In terms of number of responses, Christopher and Hassan (1999) obtained 26 out of 60 questionnaires giving a response rate of 43.3%, Rahman (2001) obtained a response rate of 37% and Stainbank and Peebles (2006) obtained a response rate of 29%. These studies used means and percentages to report and interpret their findings. In comparison to prior studies, the response rate obtained in the present study is deemed to be acceptable.

4.3 Demographic Analysis

For the demographic information respondents were asked to indicate their gender, highest educational qualification and accounting and financial qualification. The demographic information obtained indicated that 67% (43) of the respondents were male and 33% (21) were female. The majority of the respondents, that is, 61% (39) had at least a bachelor's degree while a considerable minority of 31% (20) held a master's degree. Such findings may suggest that respondents were knowledgeable about corporate annual reports. The participants as a whole could be considered well educated with 67% (43) holding accounting and financial qualifications and 31% (20) having attended accounting and financial courses. This implies that the

respondents had knowledge in accounting and finance. Therefore, their views would add useful insights into the findings of this study.

Table 4.1 shows that 31% of the respondents fall within the age bracket of 36 to 40 years whereas, 8% of the respondents were over 50 years.

Table 4.1: Age of Respondents

| Years | Frequency | Percent |
|---------------|-----------|---------------|
| 25 – 30 | 9 | 14.1% |
| 31 – 35 | 16 | 25.0% |
| 36 – 40 | 20 | 31.3% |
| 41 – 45 | 8 | 12.5% |
| 46 – 50 | 6 | 9.4% |
| Over 50 years | 5 | 7.8% |
| Total | 64 | 100.0% |

The table 4.2 below shows the years of experience of the respondents in their current profession. It shows that 16% of the respondents had less than 5 years' experience. The majority of the respondents (42%) had 11 to 15 years of experience. This would suggest that the respondents were knowledgeable about the research area and their opinions are worth examining.

Table 4.2: Years of Experience

| Experience | Number | Percentage |
|--------------------|--------|------------|
| Less than 5 years | 10 | 15.6% |
| 5 - 10 years | 17 | 26.6% |
| 11 - 15 years | 27 | 42.2% |
| 16 - 20 years | 7 | 10.9% |
| 21 - 30 years | 3 | 4.7% |
| More than 30 years | 0 | |
| Total | 64 | 100% |

4.4 Perceived usefulness of corporate annual reports

A company can communicate with its stakeholders through a number of sources, including communications through corporate annual reports, other company publications, newspapers, magazines, journals and websites. Respondents were asked to rate the perceived significance of

the different sources of corporate information. A five point Likert scale was used ranging from 1= “Not Important” to 5= “Most Important.” Following the method used by Al-Mulhem (1997), Al-Hussaini (2001) and (Alzarouni, Aljifri, Ng, & Tahir, 2011), it was considered that an item was perceived as important if it scored an aggregate mean of 4 points or more out of a total of 5.

Table 4.3 shows that respondents ranked the annual report as the most important source of information with an overall mean of 4.32. The least important source of information was newspapers with an overall mean of 2.60. The Kruskal Wallis test revealed that significant difference was found in the perceptions of the respondents regarding newspapers, journals and magazines ($p=0.021$). To determine which groups were differing in opinion the Mann Whitney test was carried out. Mann Whitney test carried out illustrated significant difference ($p=0.000$) between investment managers and lenders perception regarding newspapers, magazines and journals. The difference may be because lenders rely on a combination of direct contact with company and published annual reports. These might be used by creditors when making a decision to deal with a particular company. Therefore, newspapers, magazines and journals are of little use to lenders.

Table 4.3 Most useful source of information for users

| Statement | Creditors (N=34) | | | Lenders (N=17) | | | Investment Manager (N=13) | | |
|----------------------------|------------------|----------|------|----------------|----------|------|---------------------------|----------|------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual Reports | 4.53 | 0.66 | 1 | 4.12 | 0.86 | 1 | 4.31 | .63 | 1 |
| Other Company Publications | 4.09 | 1.11 | 3 | 4.00 | 0.79 | 2 | 3.77 | 1.01 | 3 |
| Newspapers | 2.85 | 0.93 | 5 | 2.29 | 0.85 | 4 | 2.31 | .75 | 5 |
| Magazines and Journals | 3.09 | 0.67 | 4 | 2.12 | 0.70 | 5 | 3.69 | .85 | 4 |
| Websites | 4.18 | 0.94 | 2 | 3.71 | 0.85 | 3 | 4.15 | .69 | 2 |

The overall mean score for annual reports (4.38) as the most important source of information indicates that annual reports are a useful source of information for the respondents. Further, websites have also been perceived to be useful as a source of information. A possible reason could be because websites display current information about the company, such as the current

stock prices. This finding is consistent with previous studies. For example, Al-Shayeb (2005), Misherhary and Saudagaran (2005) and Alattar and Alkhater (2007), Keyur, (2012) found that the corporate annual report was the most important source of information in the UAE, Hong Kong, Iran and Qatar respectively. Given that the majority of respondents' have more than five years of experience, hold a bachelor's degree (61%) and have accounting and financial qualifications (67%), it is unlikely to see them read magazines to make investment decisions. Further, users regard the annual report as the most important source of information probably because it is one of the few available and credible items of public information prepared within a regulatory framework in a developing country.

The results imply that the annual report is regarded as the most useful source of information. Further, the results show that respondents make use of the annual report to make various decisions, such as, investment decisions.

4.4.1 Perceived Importance of Different Sections of Annual Reports

Information is presented in annual reports under different sections. Some sections such as the income statement and the balance sheet are mandatory; other sections such as the chairman's report and sustainability reports are voluntary items for an annual report. Moreover, some sections of the annual report present quantitative data while others provide qualitative information. The importance of each section may vary among user groups. Thus, in order to examine this issue, information was sought from the respondents in respect of their perceived importance on eight sections usually found in annual reports. The eight sections of the annual report were selected since they are the most cited sections in the literature (Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007; Chatterjeet al., 2010). They were requested to indicate their degree of importance to each section on a 5 point Likert scale ranging from least important (1) to most important (5). The results are summarized in Table 4.4

Table 4.4: Perceived importance of different parts of annual report

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Managers (N=13) | | |
|-------------------------------|-------------|----------|----------|----------------|----------|----------|----------------------------|----------|----------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Income Statement | 4.59 | .66 | 1 | 4.18 | .64 | 1 | 4.08 | .76 | 1 |
| Balance Sheet | 4.47 | .75 | 2 | 4.06 | .75 | 2 | 3.92 | 1.38 | 3 |
| Cash Flow Statement | 4.29 | .72 | 3 | 3.35 | 1.11 | 7 | 3.23 | 1.01 | 6 |
| Notes to Financial Statements | 3.65 | 1.25 | 6 | 3.41 | 1.33 | 6 | 3.46 | .97 | 4 |
| Director's Report | 3.68 | 1.15 | 5 | 3.94 | 1.14 | 4 | 3.38 | .51 | 5 |
| Auditor's Report | 4.15 | 1.13 | 4 | 4.00 | .87 | 3 | 4.00 | .71 | 2 |
| Chairman's Statement | 3.00 | .82 | 7 | 2.94 | 1.03 | 8 | 2.15 | .80 | 8 |
| Sustainability Reports | 2.79 | .95 | 8 | 3.71 | 1.10 | 5 | 2.62 | 1.19 | 7 |

The income statement and balance sheet were perceived to be the most important sections of an annual report. All the 3 user groups gave the highest ranking to the income statement, followed by the balance sheet. These results are consistent with Alattar & AlKhatir (2007) who found the balance sheet and income statement to be the most important. Like the results reported for developed and developing countries (Ho and Shung-Wong, 2001; Abu-Nassar and Rutherford, 1995), the ranking of the different sections of the annual report showed a strong consistency for user groups in respect of the traditional financial statements.

Apart from the financial statements (income statement and balance sheet) with overall mean scores of 4.3 and 4.2 respectively, the auditor's report was also perceived important. While this study found the auditor's report as 3th ranked preferred source of information with an overall mean of 4.07 among the 3 user groups, this is inconsistent with a prior study undertaken by De Zoysa & Rudkin (2010) who claimed the auditor's report to be of least importance where it was given the lowest (8th) ranking across the surveyed user groups. The result reflects the high level of reliability that users in Kenya attach to the annual reports as they are audited by International Accounting firms (Big four). The chairman's statement was ranked as the least important with an overall mean of 2.81. The result is unexpected because chairman's statement is meant to promote

corporate transparency and accountability. However, respondents do not consider it useful in decision making.

The results of the Kruskal Wallis test revealed a significant difference ($p=0.01$) among users regarding the cash flow statement. Further, Mann Whitney test showed that significant difference ($p=.023$) in the perceptions of the CFOs and lenders regarding the cash flow statement.

The findings imply that traditional financial statements are the most useful sections of the annual report to respondents in making investment decisions. Therefore, the income statement, balance sheet and cash flow statement play an important role in the decision making process of users. However, the chairman's statement is not useful to respondents.

4.4.2 Opinions of users regarding non-financial information

Respondents were asked to give their opinions regarding the management discussion and analysis report and sustainability reports. Sustainability reports satisfy the need for a more holistic approach to corporate reporting on performance, beyond the purely financial disclosure. Improved reporting can also enhance internal management.

The respondents were asked to give their opinions on the kind of information they wish to be included in the MD&A report. The opinions were accounted for on a Likert scale of 1= "Not Important" to 5= "Very Important." The resulted are presented in Table 4.5.

Table 4.5: Opinions of users on MD&A Report

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Manager (N=13) | | |
|--|-------------|----------|------|----------------|----------|------|---------------------------|----------|------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Provide information on reasons for changes in ratio | 3.91 | .67 | 5 | 3.71 | .85 | 4 | 3.00 | .82 | 5 |
| Provide information on reasons for changes in profitability | 4.62 | .74 | 1 | 3.53 | .72 | 5 | 4.00 | .71 | 4 |
| Provide information in changes in financial position | 4.00 | 1.10 | 4 | 4.35 | .70 | 1 | 4.46 | .52 | 2 |
| Provide information that enables to compare actual performance with forecasted | 4.12 | 1.04 | 3 | 4.29 | .77 | 2 | 4.08 | .64 | 3 |
| Provide forward looking information | 4.21 | .64 | 2 | 3.88 | 1.27 | 3 | 4.62 | .51 | 1 |

Table 4.5 shows that investment managers would wish to receive more forward looking information, with a mean score of 4.62. Forward looking information consists of future operations of the company which enables users to predict the future plans of the company through the MD&A reports.

The implication of such results could be because investors want to invest in long term investments. Therefore, they wish to know the future plans of the company which enable them decide on which company would give them highest returns. CFOs on the other hand wish to receive more information on the changes in profitability. This finding could suggest that CFOs are concerned with the profitability of the company. In addition, this finding could be linked to the perceived importance of difference sections of the annual report where the income statement was ranked first.

Lenders on the other hand, wish to receive information on changes in the financial position. The result indicates that lenders are concerned with the assets and liabilities of the company. Respondents ranked it 1st with a mean score of 4.35. The information might be of relevance to lenders since they have to keep a track of how their funds are being utilized by the companies. Lenders are not concerned with forward looking information since they can directly communicate with the management of the companies by visiting the premises personally. Hence, additional information on the future might not be of any significance to them.

The overall mean score (4.16) among the 3 user groups indicates information that enables users to compare actual performance with forecasted is most important. The implication of such results could mean that both investors and creditors wish to know how the company is performing against what they had expected. Lenders and investors have their money invested in the company therefore, it is important for them to know whether the company is capable of repaying them. The overall mean score (4.08) on MD&A reports indicates that respondents perceive such reports useful when making investment decisions. The result is consistent with Teixeira (2004) who found that management discussion and analysis and non-financial information is equally significant in an annual report as that of financial statements.

The Kruskal Wallis test showed a significant difference ($p=0.000$) among respondents regarding the information on changes in profitability. The results of the Mann Whitney test showed

significant difference ($p=.040$) in the perception of lenders and investment managers regarding the information provided on reasons for changes in profitability. This difference could occur because investors may be interested in the profits of the company. On the other hand, lenders are concerned with the assets and liabilities of the company.

With regards to sustainability reports, respondents were asked to rank 3 reports on a Likert scale of 1= “Not Important” to 5= “Most Important.” The results are presented in table 4.6

Table 4.6: Importance of Sustainability reports

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Manager (N=13) | | |
|---------------------------------|-------------|----------|------|----------------|----------|------|---------------------------|----------|------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Environmental Reports | 3.94 | .65 | 1 | 4.00 | 1.06 | 1 | 4.31 | .48 | 1 |
| Corporate social responsibility | 3.76 | .61 | 2 | 3.47 | 1.23 | 3 | 4.12 | 1.04 | 2 |
| Integrated reports | 3.41 | .92 | 3 | 3.88 | .86 | 2 | 2.00 | .82 | 3 |

Table 4.6 shows that all the three reports were not considered being important by the CFOs. In terms of ranking, Environmental reports are ranked first with a mean of 3.97, even though not useful to CFOs since the overall mean score is less than 4. However, none of these reports are perceived to be of importance to CFOs in Kenya. A reason for the low ranking of some of these newer reports (environmental reports) may be that if the objective of using the annual report is to profit from the increase in the market price. Then, information on the more quantitative aspects of the company is more important than qualitative information.

Environmental reports are however important to lenders in making decisions. The reports had a mean score of 4. Lenders might find these reports important since companies are required to present these reports to banks when they need a loan from the bank. The results contradict from those of Epstein and Freedman (1994) who found that users demanded reporting of certain aspects of social activities, with strong demand for information about product safety and quality, and information relating to environmental activities.

In the case of investment managers, environmental reports and corporate social reports are considered to be of importance. The results imply that investors may be concerned with the

initiatives undertaken by the company to benefit the society. Hence, their investment decisions are driven by information regarding the company’s social activities. In addition, integrated reports may not be useful to investment managers since the annual report provides for financial statements, environmental reports and CSR reports. Therefore, the integrated report would add no value to users of annual reports.

The overall mean score (3.68) on sustainability reports indicates that respondents do not perceive these reports useful in the annual reports. The investment decision may not be affected to a great extent in case the reports are provided by the companies. The results from Kruskal Wallis test showed there was no significant difference among the perceptions of the respondents regarding the sustainability reports.

4.4.3 Qualitative characteristics to determine usefulness of annual reports

The qualitative characteristics are useful criteria for assessing the usefulness of accounting information (Flynn, 1985). Respondents were asked to give their level of agreement on statements regarding the understanding, timeliness, credibility, adequacy and relevance. This is because usefulness is associated with the characteristics mentioned. They were asked to rank the statements on a Likert scale where 1= “Strongly Disagree” to 5= “Strongly Disagree.” The results for understandability are presented in Table 4.7

Table 4.7: Understandability of annual reports

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Manager (N=13) | | |
|---|-------------|----------|------|----------------|----------|------|---------------------------|----------|------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual reports are well organized | 4.26 | .75 | 1 | 4.35 | .61 | 1 | 4.15 | .69 | 1 |
| All sections of annual reports are clear | 4.32 | .88 | 2 | 3.59 | .80 | 3 | 3.15 | .90 | 3 |
| Graphs and tables clarify the information presented in annual reports | 3.68 | .81 | 3 | 3.53 | .87 | 2 | 4.08 | .76 | 2 |

The results in Table 4.7 show respondents found annual reports to be well organized. The results further revealed that lenders somewhat agreed that all sections of the annual report are clear. A

possible reason could be that some sections of the annual report such as notes to financial statement may not be very clear due to the technical jargons. For investment managers, the use of graphs and tables may simplify the understanding of the annual report. This is because investment managers' deal with many investment decisions hence graphs and tables are easier to use. In all cases, the general result points to the fact that respondents do not seem to have major difficulties in understanding the annual report. This overview is contradictory to the findings of Basheikh and Page (2003), Naser et al. (2003), Mirshekary and Saudagaran (2005), Alattar and Alkhater (2007). Parker (1982) stated that although users might give the impression that they understood corporate information, it is difficult to identify the users' actual level of knowledge.

The overall mean score (3.95) on understandability shows that annual reports are not useful to respondents. This finding implies even though annual reports are perceived to be an important source of information to respondents, there could be a difficulty in understanding the content of annual reports. The Kruskal Wallis test revealed no significant difference among the perceptions of the respondents regarding the understandability statements.

The usefulness of information disclosed by a company is measured, among other things, by its timeliness. Information must be available to users before it loses its capacity to influence their decisions. Davies and Whittered (1980) concluded that timeliness is a necessary condition to be satisfied if financial statements are to be useful. The outcomes are presented in Table 4.8.

Table 4.8: Timeliness of annual reports

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Managers (N=13) | | |
|--|-------------|----------|------|----------------|----------|------|----------------------------|----------|------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual reports are made available to users in a timely manner | 4.44 | .75 | 1 | 4.24 | .66 | 1 | 4.31 | .48 | 1 |
| Annual reports are available on the internet for faster access | 4.38 | .95 | 2 | 3.76 | .83 | 2 | 2.54 | .66 | 2 |

The results indicate that respondents believe annual reports are available in a timely manner. Users can get the annual reports from the NSE, thus, availability seems not an issue to the respondents. Lenders on the other hand disagree that annual reports are available on the internet for faster access. One possibility that lenders disagree could be because lenders deal with listed and non-listed companies. It is difficult to find annual reports of non-listed companies on the internet. Investment managers also disagree on annual reports being available on the internet. Even though, listed companies on the NSE are required by the Companies Act of Kenya to avail their annual statements on the internet, most listed companies do not avail their annual reports on the internet. Further, it should be noted that a fee may also be charged in order to get the annual reports of the listed companies

The overall mean score on timeliness was 4.10 implying annual reports are useful in terms of timeliness. The outcome of such results might be indicated by the fact that users can access annual reports from the NSE. In addition, companies are required to present their annual reports to lenders; hence it is not difficult for lenders to obtain the annual reports. The finding contradicts with that of Stainbank & Peebles (2006) who ranked timeliness ninth in their findings.

The Kruskal Wallis test showed significant difference ($p=0.000$) among respondents regarding the availability of annual reports on the internet. The Mann Whitney test utilized showed a significant difference ($p=0.000$) in perception of the lenders and investment managers. The difference in opinion was on the availability of annual reports on the internet. A possible explanation for the difference could be that lenders deal with companies that are not required to publish their annual reports on the internet. Therefore, their perceptions might be influenced.

Another important characteristic of useful corporate information is credibility. It was important to seek opinions of users regarding credibility since honest and trustworthy information is vital in making informed decisions. The results are summarized in Table 4.9.

Table 4.9: Credibility of annual reports

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Managers (N=13) | | |
|--|-------------|----------|----------|----------------|----------|----------|----------------------------|----------|----------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual reports represent an accurate reflection of the financial progress and position | 4.26 | .45 | 1 | 4.35 | .70 | 1 | 4.38 | .51 | 2 |
| Annual reports highlight both positive and negative events | 4.04 | .83 | 2 | 4.06 | .90 | 2 | 4.62 | .51 | 1 |

Table 4.9 shows that respondents agree that annual reports represent an accurate reflection of the financial progress and position of companies. Further, respondents agree that annual reports highlight both positive and negative events occurring in the company. This finding could be a result of the companies reporting both profits and losses. Annual reports are prepared whether companies make profits or losses. Implying that users are satisfied with how information is disclosed in annual reports. In addition, the overall mean score (4.16) on credibility indicates that users perceive annual reports to be credible, thus, indicating usefulness. These findings might imply that annual reports are perceived to be credible since they are audited by the International Accounting firms. These findings seem to differ from that of Ngangan et al. (2005) who found that annual reports lack credibility and is an important factor affecting the usefulness.

The Kruskal Wallis test revealed no significant differences in the mean scores among respondents regarding the credibility of annual reports. This implies that both user groups are on average of the same view on the credibility of the annual reports.

In order to examine the sufficiency of the information in annual reports, respondents were asked to indicate whether the annual reports they used contained information adequate for their purposes. The results are shown in Table 4.10.

Table 4.10: Adequacy of annual reports

| Statement | CFOs (N=34) | | | Lenders (N=17) | | | Investment Managers (N=13) | | |
|--|-------------|----------|----------|----------------|----------|----------|----------------------------|----------|----------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual reports provide sufficient information in the financial section | 4.00 | .70 | 3 | 4.12 | .70 | 2 | 4.28 | .76 | 1 |
| Annual reports provide sufficient information in the non-financial section | 4.47 | .83 | 1 | 4.29 | .69 | 1 | 4.08 | .76 | 3 |
| Information contained in annual reports is sufficient to make informed decisions | 4.21 | .54 | 2 | 3.94 | .83 | 3 | 4.15 | .99 | 2 |

The results in Table 4.10 indicate that respondents tend to agree that annual reports provide sufficient information in the financial section. In the case of lenders, annual report information is complemented by other sources of information needed by lenders to make a decision. Therefore, it possible the information they require from annual reports is sufficient. Therefore, a score of 3.94 could be because lenders need information that might not be in the annual reports, hence, lenders decisions might not only be based on the accounting information. The findings indicate an agreement among users on the adequacy of annual reports.

The overall mean score (4.11) of the 3 statements shows that annual reports of listed companies in Kenya are adequate. Hence, annual reports are useful to users in terms of adequacy. This finding is inconsistent with Abu-Nassar and Rutherford (1995) who found Jordanian users of financial reports regarded the adequacy of information provided insufficient for their purposes. The inconsistency might be due to other sources that users in Kenya rely on when making a decision. For example, investors might be influenced by information they seek from friends. The test of Kruskal Wallis showed no significant differences between the perceptions of lenders and investors regarding the adequacy of annual reports.

Relevance is an essential feature of corporate annual reports if users are to be able to make informed economic decisions (Abu-Nassar, 1993). Respondents were asked to indicate the level of relevancy of the three statements given to them. The results are shown in Table 4.11.

Table 4.11: Relevance of annual reports

| Statement | Creditors (N=34) | | | Lender (N=17) | | | Investment Managers (N=13) | | |
|---|------------------|----------|----------|---------------|----------|----------|----------------------------|----------|----------|
| | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank | Mean | Std. Dev | Rank |
| Annual reports disclose forward looking information | 4.21 | .54 | 2 | 3.94 | .83 | 1 | 4.23 | .73 | 1 |
| Annual reports provide feedback information | 4.24 | .61 | 1 | 4.12 | .78 | 2 | 3.92 | .76 | 2 |

The table 4.11 shows CFOs agree that annual reports provide feedback information on how various market events and significant transactions affect the company. Lenders and investment managers agree that annual reports disclose forward looking information. This finding could be as a result of companies presenting their future goals and objectives. Further, annual reports provide information on the last 5 years of the company; therefore, respondents are able to analyze the progress made by the companies. The overall mean score (4.14) on relevance shows that annual reports are useful. In addition, no significant differences were found in the perceptions of the users regarding the relevance of the annual reports.

To summarize, the first objective was to assess the perceived usefulness of different sources of information. Annual reports are perceived to be the most important source of information to the 3 user groups that is, CFOs, lenders and investment managers. Newspapers were ranked as least important according to the three user groups. In addition, the traditional statements which includes balance sheet and income statement were perceived to be most important to users. The auditor's report was also found to be of importance to users. This could be because users seek for assurance that the reports are reliable in their decision making.

Respondents were asked to give their opinions on additional information they wish to receive in annual reports. The management discussion and analysis report was preferred by users. This could be because it contains less quantitative and more qualitative reports. Hence, users can better understand the activities of the company. In determining the features that are associated with usefulness, respondents were asked to give their views regarding the features. These

features include understandability, timeliness, credibility, adequacy and relevance. The mean scores indicated that annual reports were not useful in terms of understandability (3.95).

4.5 Factors influencing the usefulness of annual reports

To determine the factors influencing usefulness of annual reports simple regression was used. Respondents were asked to give their demographic profile. The demographic profile included questions on gender, age, highest educational qualification, accounting and financial qualification, experience and type of user group. The simple regression equation was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where:

Y = Dependent variable (Usefulness)

β_0 = the value of Y usefulness is equal to zero. This is also called the “Y Intercept”.

X = Independent variables

X_1 = Gender

X_2 = Age

X_3 = Accounting qualification

X_4 = Experience

X_5 = Highest Educational qualification

X_6 = Type of user

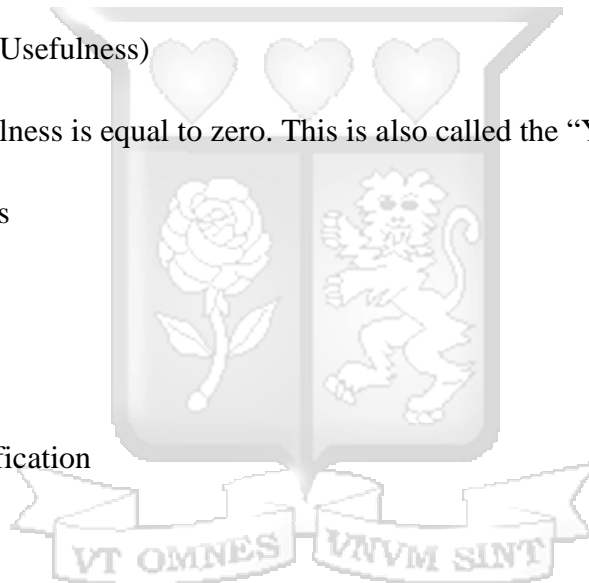


Table 4.12 Model summary for simple regression analysis

| Factors | Unstandardized Coefficients | | Standardized Coefficients | T | Sig P 0.05 |
|--------------------------------------|-----------------------------|------------|---------------------------|-------|------------------|
| | B | Std. Error | Beta | | |
| Gender | -.890 | 1.345 | -.094 | -.662 | .511 |
| Age Group | 1.050 | .966 | .154 | 1.088 | .282 |
| Educational Qualification | 2.489 | 2.329 | .151 | 1.069 | .290 |
| Accounting & Financial Qualification | .092 | .212 | .062 | .436 | .665 |
| Experience | -.476 | 1.038 | -.065 | -.458 | .649 |
| Type of user | .224 | .296 | .108 | .757 | .453 |

The value of the dependent variable (usefulness of annual reports) was derived by adding the scores of the variables (understandability, timeliness, credibility, adequacy and relevance) as answered by the respondents. Table 4.12 entails the output for each simple regression which was arranged in one table. The results of the simple regression analysis showed that none of the factors had an influence on usefulness of annual reports. This implies that personal characteristics had no an effect on the usefulness of annual reports. Factors were considered insignificant since the Sig Values were more than 0.05.

Further, Chi Square tests were done to confirm whether the results were similar to the regression analysis results. The factors tested included highest educational qualification, work experience, type of user, accounting and financial qualification, gender and age. The Chi Square test was done for 64 responses, thus, N in this case is 64. The chi square results are presented in the Table 4.13:

Table 4.13: Determining significance of relationships

| Chi-Square Tests | | | |
|--|---------------------------|----------|-----------------------|
| 1. Highest Educational Qualification | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 2.165^a | 1 | .141 |
| Likelihood Ratio | 2.937 | 1 | .087 |
| Linear-by-Linear Association | 2.122 | 1 | .145 |
| 2. Work Experience | | | |
| Pearson Chi-Square | 8.148^a | 3 | .043 |
| Likelihood Ratio | 8.630 | 3 | .035 |
| Linear-by-Linear Association | .260 | 1 | .610 |
| 3. Accounting and financial qualification | | | |
| Pearson Chi-Square | 1.817^a | 2 | .403 |
| Likelihood Ratio | 1.835 | 2 | .399 |
| Linear-by-Linear Association | 1.380 | 1 | .240 |
| 4. Type of user | | | |
| Pearson Chi-Square | 5.752^a | 2 | .016 |
| Likelihood Ratio | 5.978 | 2 | .010 |
| Linear-by-Linear Association | 5.534 | 1 | .019 |
| 5. Gender | | | |
| Pearson Chi-Square | 22.513^a | 5 | .259 |
| Likelihood Ratio | 28.259 | 5 | .079 |
| Linear-by-Linear Association | .443 | 1 | .505 |
| 6. Age Group | | | |
| Pearson Chi-Square | 75.097^a | 7 | .031 |
| Likelihood Ratio | 63.128 | 7 | .045 |
| Linear-by-Linear Association | 1.047 | 1 | .306 |

The results of the chi square tests show that there is an association between the type of user group, work experience, age of respondents and usefulness. For a variable to be significant, the p

value should be less than 0.05 ($p < 0.05$). In this case, the type of user group ($p=0.16$), work experience ($p=.043$) and Age group ($p=.031$) are related to the usefulness of annual reports. This means that different user groups perceive usefulness of annual reports differently. A possible reason for this could be because of the different needs of the users. For example, the technicality of most of information contained in the notes to financial statements may divert investors away from reading such a statement. However, for a creditor the notes to financial statements may provide insightful information in decision making. Hence, there is an association between the type of user and usefulness of annual reports.

The findings suggest accounting and financial qualification ($p=.403$) and highest educational qualification ($p=.141$) is not related to the usefulness of annual reports. The results are somewhat unexpected. This is because; users with accounting and financial qualification tend to understand information in the annual report unlike users who do not have accounting and financial qualification. The results suggesting highest educational qualification is not related to usefulness of annual reports could be because the area of specialization of users was not known. The results have been found to contradict with that of (Ramaswamy & Ramen, 2009) who found level of qualification as significant factors affecting usefulness of annual reports.

The second objective was to identify the factors influencing usefulness of annual reports. The results of the simple regression analysis found no significant factors influencing usefulness of annual reports. To complement the regression results, a chi square test was done to identify the association between the factors and usefulness of annual reports. The results indicated that work experience, type of user group and age group were significant. On the other hand, accounting and financial qualification and highest educational qualification had no significant relationship on the usefulness of annual reports.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter gives an overall summary of the findings. The first section looks at the summary of research objectives and methodology. The next section discusses the findings of the study as well as recommendations drawn from the conclusion of the study. Lastly it explains the various limitations of the study and gives future research avenues.

5.2 Summary of research objective and methodology.

The overriding purpose of this study was to determine user perceptions on the usefulness of corporate annual reports of listed companies in Kenya. The study had two specific objectives. The first objective was to assess the perceived importance of corporate annual reports of listed companies in Kenya to users relative to other sources of information. The second objective was to establish the factors influencing usefulness of corporate annual reports of listed companies in Kenya. Descriptive statistics was used to determine the most important sources of information to users. After determining the most important source of information to users, respondents were asked to give their opinions on the most useful sections of the annual report. Kruskal Wallis test was carried out to identify the difference in perceptions among the 3 user groups (CFOs, Lenders and Investment managers). Further, Mann Whitney test was utilized to show which 2 groups differed in the opinion. To answer the second objective, simple regression analysis was used, where the dependent variable was usefulness and the independent variables were the personal factors (Age, Gender, and Experience). To establish the association between usefulness and the independent variables Chi Square test was utilized where the significance level (p 0.05) determined the association. Variables with less than 0.05 were considered to be significant.

5.3 Discussion of the findings

This section explains the major findings of the study.

5.3.1 Most important source of information

This study aimed to establish the perceptions of users on the issue of whether corporate annual reports are useful and an important source of corporate information. Based on the analysis, the

study has provided some evidence on the usefulness of annual reports of listed companies in Kenya. With regards to the specific objective, this was to determine the relative importance of sources of information from users' perspective. The mean score (4.38) indicated that annual report was the most important source of information to users as compared to other sources. Whereas, the least important source of information were newspapers with a mean score of 2.60. That could be partly attributable to lack of relevant information in newspapers. Newspapers might contain a section that covers business and economic news without any intensive analysis. The information that newspapers address is of little benefit to the user groups. The Mann Whitney test found significant difference in the perception of users regarding newspapers, magazines and journals. These differences could be because newspapers are of little importance to lenders when making decisions about a company. However, investors may look for information from all kinds of sources to be sure of their investment decisions. This finding is consistent with previous studies. For example, Ho and Wong (2001), Al-Shayeb (2005), Misherkary and Saudagaran (2005) and Alattar and Alkhater (2007) found that corporate annual report was the most important source of information in the UAE, Hong Kong, Iran and Qatar respectively.

As far as the various sections of the annual reports are concerned, lenders and creditors considered that the income statement, balance sheet and auditor's report are most important. While this study found the auditor's report as 3th ranked preferred source of information with a mean of 4.07, this is inconsistent with a prior study undertaken by De Zoysa & Rudkin (2010) who claimed the auditor's report to be of least importance where it was given the lowest (8th) ranking across the surveyed user groups. A possible reason for such finding could be because users want to verify that the annual reports present a true and fair view of the company. Hence, it provides some assurance on the performance of the company.

With regards to the non-financial information, users have shown interest in management discussion and analysis report. In particular to provide reasons for change in financial position and compare actual performance with forecasted. As proposed by the Companies Act 2015 of Kenya, listed companies can present annual reports in form of summary reports. The result is consistent with Teixeira (2004) who found that management discussion and analysis and non-financial information is equally significant in an annual report as that of financial statements.

The summary reports will contain all the information that is found in a traditional financial statement. Summary reports can enable users to understand the activities of the company better since it contains less quantitative information. Respondents have not shown interest in sustainability reports, possibly because these reports are not very useful in making investment decisions. A similar analysis of the perceptions of users in Australia showed a lack of consensus among respondents on numerous issues relating to the environment, and that their involvement in dealing with environmental issues remained minimal (Deegan et al., 1996).

User groups considered timeliness and relevance with mean scores of 4.10 and 4.14 respectively, as the contributing features of useful corporate information in Kenya. Respondents can access the annual reports easily. In terms of adequacy annual reports are useful to users. The information contained in the annual reports is sufficient to the 3 user groups to make investment decisions. This finding is different from Yuen et al. (2009) who have shown that the annual reports have provided inadequate information to the users. The only feature that does not contribute to usefulness is understandability (mean score of 3.95). This implies that users, specifically investors might not have the accounting and financial background to enable them understand the annual reports in detail. Therefore, they find it difficult to analyze all sections of the report. This overview is contradictory to the findings of Basheikh and Page (2003) and Naser et al. (2003) who found users did not have major difficulties in understanding the annual reports.

5.3.2 Factors affecting the usefulness of annual reports

The second objective of the study was to identify the factors affecting usefulness. The factors included gender, age, work experience, highest educational qualification, accounting and financial qualification and type of user. The regression analysis revealed that none of the factors mentioned above were significant. Therefore, there was no relationship between the factors and usefulness. This finding implies that personal factors do not determine the usefulness of annual reports. However, Chi Square tests were conducted. The factors tested included work experience, highest educational qualification, accounting and financial qualification, type of user, gender and age. The results revealed that work experience ($p=0.43$), type of user ($p=0.16$) and age ($p=0.031$) were significant factors. The factors were considered significant because their values were less than $p=0.05$ (Significance level at 95%). Hence, there is relationship between the two factors and usefulness of annual reports. The finding is similar to Rowbottom & Lymer (2010) whose results

suggest that those with greater experience in preparing and using financial accounts adopt different online information preferences. However, accounting and financial qualification (0.403), highest educational qualification (0.141) and gender (0.259) were insignificant factors. The result suggests they have no effect on the usefulness of annual reports. The outcome might imply that since users are from different backgrounds, they perceive usefulness in different ways. For example, a lender has different information needs from that of investors. Therefore it affects the usefulness of annual reports.

5.4 Conclusions

A key feature of annual reports is their usefulness in making business decisions. Financial information and annual reports can inform users on the consequences of their decisions made either now or in the past. Annual reports are used by companies to help them grow and develop and thus, strengthen the economic and social contribution companies can make to the economy.

The conclusion made from this study is that users in Kenya prefer to use annual reports, especially the traditional financial statements (income statement, balance sheet and cash flow statement). In addition, users also find the auditor's report to be important. Apparently notes to financial statements are not particularly perceived to be of importance to both investors and lenders. The findings were unexpected in the case of lenders because notes to financial statements contain explanations that enable a better understanding of the information in the financial statements. However, it is likely that investors perceive it to be of less importance is because of the language used in the notes to financial statements.

In addition, the chairman's report and directors report is also not favored by the users. It seems the qualitative information in the report is less preferred compared to quantitative information. The finding that formal lenders prefer information from the income statement suggests that lenders are more concerned with profitability than liquidity. They use profitability as an indicator of the borrower to service the loan. Alternatively, perhaps lenders understand profit and the implication of recording a profit or loss better than importance of net worth and liquidity.

It should also be noted that, even though timeliness was considered as an important characteristic determining usefulness of annual reports. Respondents did not agree on annual reports being available on the internet. Despite the Companies Act of Kenya (2015) stating that all listed companies should provide annual reports on the internet. The 3 user groups might have to pay online to get the annual reports from the internet. Therefore, timeliness might have an effect on the usefulness of annual reports since it hinders users to make timely decisions.

5.5 Implications of the study

An annual report is regarded as the main medium by which companies disseminate information to the external users. It is hoped that the study will provide accounting standard-setters with some guidelines for the improvement of corporate financial disclosure, with the goal of developing and enhancing the efficiency of the NSE market. This study gives insights to the preparers of financial statements.

Scholars interested in the field of financial reporting should find the study relevant and of great importance. The research collaborates existing literature (Ngangan et al., 2005; Mirshekary and Saudagaran, 2005; Alattar and Alkhatir, 2007; Chatterjeet al., 2010) and it intends to provide greater insight into the differences in the 3 users groups perceptions regarding the corporate annual report in a Kenyan context. The findings of the study should complement further the existing literature by adding to the current body of knowledge and also provide a basis from which future scholars can define their future research agendas.

The study might have some implications for the preparers and auditors on how to improve annual reports in future. For example, preparers may think about re-allocating resources to prepare the parts that are more useful to users groups and make more voluntary disclosures in those parts. For example, ensuring the balance sheet and income statement provides sufficient information that enables the users to make informed investment decisions. This could help make annual reports of listed companies more valuable to its users. Considering investors do not have time to sit down and read the annual report and they may miss on important information. A summarized report can benefit the user groups.

Even though annual reports were considered to be useful in terms of timeliness, it is worth noting that annual reports are not easily available on the internet. Regulators should put more emphasis in enabling companies to produce these reports on the internet by coming up strict policies. In addition, users may not be knowledgeable enough to use corporate annual reports. If that is the case for instance, the regulatory authorities as well as the exchanges could strengthen their investors' awareness program.

5.6 Limitations of the study

This study has examined the perceptions of 3 user groups of an annual report, that is, CFOs, investment managers and lenders. Other users such as employees, suppliers, and government authorities may have different views on the usefulness and importance of annual reports.

The research has only employed the questionnaire method to elicit opinions from respondents. In addition, respondents were asked to indicate their highest educational qualification. However, the area of specialization of the respondent was not clear. In addition, some companies were unwilling to answer the questionnaire and disclose information that would add insights into this study.

5.7 Recommendations

Future research could consider expanding the categories of participants to include those excluded from this study. Different users may have different views on the use and importance of annual reports. The views of different users on annual reports could be a basis upon which future revision on accounting standards could focus.

Apart from administering a questionnaire, future research could also conduct face to face interviews to gain additional insights into the usefulness of annual reports. A closed ended questionnaire may have forced respondents into choosing one of the proposed answers, even though it is possible to include open ended questions in a survey. It is much easier to express the feelings of respondents during open discussions.

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APPENDIX I: QUESTIONNAIRE

I would like to ask you to answer some questions on the annual report. Your answers will help clarify the value of the financial statements of the listed companies in Kenya.

PART I: General Information

1. Please indicate your gender.

Male

Female

2. Please indicate your age range.

25 – 30 years

31 – 35 years

36 – 40 years

41 – 45 years

45 – 50 years

Over 50 years

3. How would you describe your highest educational qualification?

Less than diploma

Diploma

Bachelor's Degree

Master's Degree

Doctorate

Other (please specify).....

4. Further describe your accounting and financial qualification.

Attended accounting and financial courses

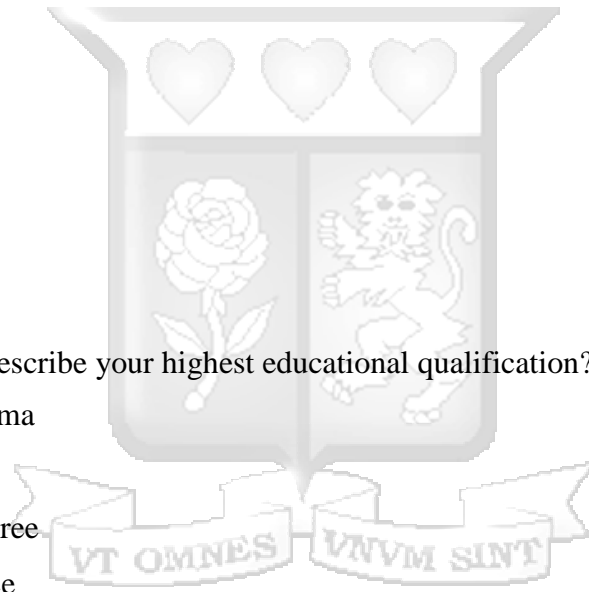
Holding accounting and financial qualification

None

Other (please specify).....

5. How long have you been in your present profession?

Less than 5 years



- 5 – 10 years
- 11 – 15 years
- 16 – 20 years
- 21 – 30 years
- More than 30 years

6. Kindly tick on the type of user group you belong to as a user of corporate annual reports.

Chief Financial Officer

Lender

Investment Manager

PART 2: Importance and use of annual reports

This section aims to seek your views on the importance of different information sources available and your views on the importance of different parts of the annual report.

Indicate your opinion with the following statements by ticking your response using the scale below;

1= Not Important, 2= Slightly Important, 3= Moderately Important, 4= Important, 5= Very Important

1. To know about the financial position and operating performance of a company, how important, in your opinion, are the following sources of information?

| Statement | | 1 | 2 | 3 | 4 | 5 |
|-----------|--|---|---|---|---|---|
| 1 | Annual reports | | | | | |
| 2 | Other Company Publications (E.g. prospectuses and Newsletters) | | | | | |
| 3 | Newspapers | | | | | |
| 4 | Magazines and Journals | | | | | |
| 5 | Websites | | | | | |
| 6 | Other (please specify) | | | | | |

2. What ranking of importance would you give the following parts of a company's annual report?

1= Not Important, 2= Slightly Important, 3= Moderately Important, 4= Important, 5= Very Important

| Statement | | 1 | 2 | 3 | 4 | 5 |
|-----------|---|---|---|---|---|---|
| 1 | Income statement | | | | | |
| 2 | Balance sheet | | | | | |
| 3 | Cash flow statement | | | | | |
| 4 | Notes to financial statements | | | | | |
| 5 | Directors report | | | | | |
| 6 | Auditors report | | | | | |
| 7 | Chairman's statement | | | | | |
| 8 | Sustainability reports (such as environmental reports, CSR) | | | | | |
| 9 | Other (please specify) | | | | | |

3. With regards to the non-financial information (also known as the voluntary disclosures) what features should the following reports contain according to you?

| Management discussion and analysis report | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Provide information on reasons for changes in ratios | | | | | |
| 2 | Provide information on reasons for changes in profitability | | | | | |
| 3 | Provide information on reasons for changes in financial position | | | | | |
| 4 | Provide information that enables to compare actual performance with forecasted | | | | | |
| 5 | Provide forward looking information (such as future plans and goals of the company) | | | | | |

| | | | | | | |
|---|------------------------|--|--|--|--|--|
| 6 | Other (please specify) | | | | | |
|---|------------------------|--|--|--|--|--|

| Sustainability Reports | | 1 | 2 | 3 | 4 | 5 |
|-------------------------------|--|----------|----------|----------|----------|----------|
| 1 | Environmental reports (Provide information on environmental policies, recycling activities and environmental management) | | | | | |
| 2 | Corporate social responsibility (provide information on the initiatives undertaken to benefit the society) | | | | | |
| 3 | Integrated reports (provide a holistic view of the company in terms of strategy, performance, social and environmental issues) | | | | | |
| 4 | Other (please specify) | | | | | |

4. Below are the features of a useful annual report. Kindly give your level of agreement with the following statements that have been presented in five different tables according to their respective features.

Indicate your opinion with the following statements by ticking your response using the scale below;

1=Strongly Disagree, 2= Disagree, 3= Somewhat Agree, 4= Agree, 5= Strongly Agree

| Statements on Understandability | | 1 | 2 | 3 | 4 | 5 |
|--|---|----------|----------|----------|----------|----------|
| 1 | Annual reports are well organized | | | | | |
| 2 | All sections of annual reports are clear | | | | | |
| 3 | Graphs and tables clarify the information presented in annual reports | | | | | |
| 4 | Other (please specify) | | | | | |

| Statements on Timeliness | | 1 | 2 | 3 | 4 | 5 |
|---------------------------------|---|----------|----------|----------|----------|----------|
| 1 | Annual reports are made available to users in a timely manner that allows them to make informed decisions | | | | | |
| 2 | Annual reports are available on the internet for faster access to users | | | | | |
| 3 | Other (please specify) | | | | | |

| Statements on Credibility | | | | | | |
|----------------------------------|---|--|--|--|--|--|
| 1 | Annual reports represent an accurate reflection of the financial progress and position of companies | | | | | |
| 2 | Annual reports highlight both positive and negative events occurring in the company | | | | | |
| 3 | Other (please specify) | | | | | |

| Statements on Adequacy | | 1 | 2 | 3 | 4 | 5 |
|-------------------------------|--|----------|----------|----------|----------|----------|
| 1 | Annual reports provide sufficient information in the financial section | | | | | |
| 2 | Annual reports provide sufficient information in the non-financial section | | | | | |
| 3 | Information contained in annual reports is sufficient to make informed decisions | | | | | |
| 4 | Other (please specify) | | | | | |

| Statements on Relevance | | 1 | 2 | 3 | 4 | 5 |
|--------------------------------|--|----------|----------|----------|----------|----------|
| 1 | Annual reports disclose forward looking information | | | | | |
| 3 | Annual reports provide feedback information on how various market events and significant transactions affect the company | | | | | |
| 4 | Other (please specify) | | | | | |

5. Kindly indicate (if any) any suggestions or comments that would make annual reports more useful to their users.

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Thank you for your time and participation



APPENDIX II: Companies listed on the NSE

| | COMPANY | ISSUED SHARES |
|----|---|--------------------------|
| 1 | AccessKenya Group Limited | 218,467,081 |
| 2 | Atlas Development & Support Services (GEMS) | 39,139,827 |
| 3 | ARM Cement Limited | 495,275,000 |
| 4 | Bamburi Cement Limited | 362,959,275 |
| 5 | British American Tobacco Kenya Limited | 100,000,000 |
| 6 | A.Baumann & Co Limited | 3,840,066 |
| 7 | Barclays Bank of Kenya Limited | 5,431,536,000 |
| 8 | Crown Paints Kenya Limited | 23,727,000 |
| 9 | B.O.C Kenya Limited | 19,525,446 |
| 10 | British-American Investments Co.(Kenya) Limited | 1,938,415,838 |
| 11 | Car & General (K) Limited | 40,103,308 |
| 12 | East African Cables Limited | 253,125,000 |
| 13 | Carbacid Investments Limited | 254,851,988 |
| 14 | CFC Stanbic of Kenya Holdings Limited | 395,321,638 |
| 15 | Liberty Kenya Holdings Limited | 535,707,499 |
| 16 | CIC Insurance Group Limited | 2,615,538,528 |
| 17 | Co-operative Bank of Kenya Limited | 4,889,316,295 |
| 18 | Diamond Trust Bank Kenya Limited | 242,110,105 |
| 19 | East African Breweries Limited | 790,774,356 |
| 20 | Eaagads Limited | 32,157,000 |
| 21 | Equity Group Holdings Limited | 3,702,777,020 |
| 22 | Eveready East Africa Limited | 210,000,000 |
| 23 | Sameer Africa Limited | 278,342,393 |
| 24 | Flame Tree Group Holdings Limited (GEMS) | 161,866,804 |
| 25 | Home Afrika Limited | 405,255,320 |
| 26 | Hutchings Biemer Limited | 360,000 |
| 27 | Housing Finance Co.Kenya Limited | 235,750,000 |
| 28 | Centum Investment Co Limited | 665,441,775 |
| 29 | I&M Holdings Limited | 392,362,039 |
| 30 | Jubilee Holdings Limited | 59,895,000 |
| 31 | Kapchorua Tea Company Limited | 3,912,000 |
| 32 | Kenya Commercial Bank Limited | 2,984,227,692 |
| 33 | KenGen Company Limited | 2,198,361,456 |
| 34 | KenolKobil Limited | 1,471,761,200 |
| 35 | Kenya Reinsurance Corporation Limited | 699,949,068 |
| 36 | Kenya Power & Lighting Co Limited | 1,951,467,045 |
| 37 | Kenya Airways Limited | 1,496,469,035 |
| 38 | Kakuzi Limited | 19,599,999 |
| 39 | Kurwitu Ventures Limited (GEMS) | 102,272 |
| 40 | Limuru Tea Company Limited | 1,200,000 |
| 41 | Longhorn Kenya Limited | 58,500,000 |

| | | |
|----|--|----------------|
| 42 | Marshalls East Africa Limited | 14,393,106 |
| 43 | Mumias Sugar Co. Limited | 1,530,000,000 |
| 44 | National Bank of Kenya Limited | 280,000,000 |
| 45 | NIC Bank Limited | 597,282,563 |
| 46 | Nation Media Group Limited | 188,542,286 |
| 47 | Nairobi Securities Exchange Limited | 194,625,000 |
| 48 | Olympia Capital Holdings Limited | 40,000,000 |
| 49 | Kenya Orchards Limited | 12,868,124 |
| 50 | Pan Africa Insurance Holdings Limited | 96,000,000 |
| 51 | East African Portland Cement Co. Limited | 90,000,000 |
| 52 | Rea Vipingo Plantations Limited | 60,000,000 |
| 53 | Sasini Limited | 228,055,500 |
| 54 | Scangroup Limited | 378,865,102 |
| 55 | Standard Chartered Bank Kenya Limited | 309,159,514 |
| 56 | Safaricom Limited | 40,065,428,000 |
| 57 | Standard Group Limited | 81,731,808 |
| 58 | Trans-Century Limited | 280,284,476 |
| 59 | Total Kenya Limited | 175,028,706 |
| 60 | TPS Eastern Africa Limited | 182,174,108 |
| 61 | Uchumi Supermarket Limited | 265,424,636 |
| 62 | Umeme Limited | 1,623,878,005 |
| 63 | Unga Group Limited | 75,708,873 |
| 64 | Williamson Tea Kenya Limited | 8,756,320 |
| 65 | Express Kenya Limited | 35,403,790 |

Source: <https://www.african-markets.com/en/stock-markets/nse/listed-companies> (25/11/2015)



APPENDIX III: List of Investment Banks/Stock Brokers in Kenya

| | Company Name |
|----|--|
| 1 | Dyer & Blair Investment Bank Ltd |
| 2 | Francis Drummond & Company Limited |
| 3 | Suntra Investment Bank Ltd |
| 4 | Old Mutual Securities Ltd |
| 5 | SBG Securities Ltd |
| 6 | Kingdom Securities Ltd |
| 7 | Afrika Investment Bank Ltd |
| 8 | ABC Capital Ltd |
| 9 | Sterling Capital Ltd |
| 10 | ApexAfrica Capital Ltd |
| 11 | Faida Investment Bank Ltd |
| 12 | NIC Securities Limited |
| 13 | Standard Investment Bank Ltd |
| 14 | Kestrel Capital (EA) Limited |
| 15 | African Alliance Kenya Investment Bank Ltd |
| 16 | Renaissance Capital (Kenya) Ltd |
| 17 | Genghis Capital Ltd |
| 18 | CBA Capital Limited |
| 19 | Equity Investment Bank Limited |
| 20 | KCB Capital |
| 21 | Barclays Financial Services Limited |

Source: <https://www.nse.co.ke/member-firms/firms.html> (04/05/2016)

APPENDIX IV: List of Commercial Banks in Kenya

| | |
|----|---------------------------------------|
| 1 | African Banking Corporation Limited |
| 2 | Bank of Africa Kenya Limited |
| 3 | Bank of Baroda (K) Limited |
| 4 | Bank of India |
| 5 | Barclays Bank of Kenya Limited |
| 6 | CfC Stanbic Bank Limited |
| 7 | Citibank N.A Kenya |
| 8 | Commercial Bank of Africa Limited |
| 9 | Consolidated Bank of Kenya Limited |
| 10 | Co-operative Bank of Kenya Limited |
| 11 | Credit Bank Limited |
| 12 | Development Bank of Kenya Limited |
| 13 | Diamond Trust Bank Kenya Limited |
| 14 | Ecobank Kenya Limited |
| 15 | Equatorial Commercial Bank Limited |
| 16 | Equity Bank Kenya Limited |
| 17 | Family Bank Limited |
| 18 | Fidelity Commercial Bank Limited |
| 19 | First Community Bank Limited |
| 20 | Guaranty Trust Bank (K) Ltd |
| 21 | Giro Commercial Bank Limited |
| 22 | Guardian Bank Limited |
| 23 | Gulf African Bank Limited |
| 24 | Habib Bank A.G Zurich |
| 25 | Habib Bank Limited |
| 26 | I & M Bank Limited |
| 27 | Jamii Bora Bank Limited |
| 28 | KCB Bank Kenya Limited |
| 29 | Middle East Bank (K) Limited |
| 30 | National Bank of Kenya Limited |
| 31 | NIC Bank Limited |
| 32 | Oriental Commercial Bank Limited |
| 33 | Paramount Bank Limited |
| 34 | Prime Bank Limited |
| 35 | Sidian Bank Limited |
| 36 | Standard Chartered Bank Kenya Limited |
| 37 | Trans-National Bank Limited |
| 38 | UBA Kenya Bank Limited |
| 39 | Victoria Commercial Bank Limited |

