

**CORPORATE GOVERNANCE ON CORPORATE RISK DISCLOSURE ON LISTED  
FIRMS IN KENYA.**

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**A research project submitted to Strathmore business school in Strathmore university in  
partial fulfillment of bachelor of commerce of Strathmore university.**

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**Declaration**

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, the project contains no material previously published or written within by another person except where due reference is made in this proposal itself.

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## **Dedication**

I dedicate this research project to my supervisor Mr. Erastus Mbithi. He has remained a great blessing and a source of encouragement to me all through the research project. May the Almighty God bless you so much.

### **Acknowledgement**

I thank the lord for He has seen me this far I have come and has given me the strength and the will to finish my research.

I am in debt to my supervisor, Mr. Erastus Mbithi, whose knowledge and experience has seen me through this project. Without your constant drive and guidelines, I would not have completed this project in due time. I am very grateful.

### **Abstract**

There is a growing need from investors and other stakeholders from companies to disclose more than the requirements in the annual reports so as to help in the decision making process of investments. The study therefore, empirically examines the effect of corporate governance on corporate risk disclosure in Kenya. Data was gathered from 35 listed companies in Kenya from a period of 2014-2018. Multiple regression was performed to establish the effect of corporate governance characteristics on the effects of corporate risk disclosure taking into consideration the control variable (firm size).

The study provides empirical evidence that firm size and corporate risk disclosure are positively correlated while the aspects of corporate governance had different results as board independence, and gender had a positive yet insignificant relation while the board size does affect the level of CRD. The findings should be of interest to Professional accountants, academicians, policy makers and advocates of Risk disclosures. This is because more studies need to be carried out in this area of risk. This study contributes to the limited knowledge of risk disclosure by companies which is still a fairly new aspect being embraced here in Kenya.

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## Abbreviation and Acronyms

BOI-Board Independence

BOS-Board Size

CG- Corporate Governance

CMA-Capital Market Authority

CRD-Corporate Risk Disclosure.

CRDI-Corporate Risk Disclosure Index

FZ-Firm Size

GND-Gender

IASB-International Accounting Standard Board

IFRS-International Financial Reporting Standards

NSE-Nairobi Securities Exchange

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background

Major corporates in both developed and developing countries have collapsed recently, especially in developing countries particularly in Kenya i.e. Chase Bank Kenya Limited, Imperial Bank Kenya Limited (In Receivership), Uchumi Limited,) due to poor corporate governance and fraudulent activities. This recent trend highlighted the need for better corporate governance (CG) through transparency, risk management, disclosure practices and accountability. Most developing countries are questioning the effectiveness of corporate governance and there has been a great interest on the quality and extend of corporate governance by the investors, stakeholders (external and internal) and even regulators as it led to growth and sustainability of the cooperation as issues such as agency problem, information asymmetry are reduced.

Corporate governance is being given much attention mainly because most companies do not provide sufficient information on risk management and the information provided is quite brief and not forward looking as its not adequate to help investors and other stakeholders in making decisions (Abraham & Cox, Analysing the determinants of narrative risk information in uk, 2007). Therefore, when an organization has better corporate governance it leads to better risk management, improved accountability and the usefulness of financial reporting and it is through corporate governance mechanisms that makes an organization to disclose more on risk which is a way of satisfying stakeholders and assuring them of the sustainability of their activities (Elzahar & Hussainey, 2012).

Most corporate organization fail to meets its objectives or they are faced with fraudulent and governances scandal due to the principle-agent relationship. According to agency theory the principal gives the agent the authority to make decisions on behalf of the organization and they ought to be in line with the vision of the company. The problems arise due to conflict of interest by the two parties as each one of them have different views and perspectives of objectives. Another reason that could lead to corporate scandals is that agents have better and adequate information concerning the organization than the shareholders (Jensen & Meckling, 1976). Corporate governance is the solution of agency conflict as it tries to establish practices and controls on how the differences of interest can be minimized.

Good governance increases investors' confidence and goodwill, and that is why most organizations are participating in good governance as it increases valuations as well as having admirable services and achievements. Majority of organizations with good governance have a better chance of succeeding than those that do not have. Poor corporate governance leads to corruption and bribery within the organization, which in turn affects the entire economy of the country (Kenani & Bett, 2018). To ensure sound corporate governance, well-defined rules, regulations, guidelines, and frameworks need to be established and it ought to meet the objective of (CG) so as to provide a sense of direction to the organizations on what is expected of them so as to improve the corporate governance practices of Kenya.

All companies are regulated by the International Accounting Standard Board (IASB) framework that is used to present and present financial statements. IASB is an independent body that approves and develops International Financial Reporting Standards (IFRS). There are a number of IFRS that guides the various entities and they ought to adhere to these standards. Risk disclosure by companies ought to follow the IFRS 9 (financial instruments disclosure). This standard is for any entity that has any sort of financial instruments and organizations have to disclose risk depending on its significance and the extent and nature of the risk the entity is facing. With these standards, it helps to bring uniformity in the accounting field, thus every country has to follow them and with the help of the regulating bodies in the various countries, they prepare their reports as per the set standards which are set by recognized bodies.

Here in Kenya, the regulating bodies are the Capital Market Authority (CMA), Companies Act 2015. CMA is an independent government regulatory body and it regulates the activities of publicly listed firms, while the Companies Act 2015 is involved with the registering, incorporation, and regulation of companies. In the year 2017, CMA established a guideline on code of corporate governance that has the mechanisms and process on how organizations ought to adopt a better governance. It is through corporate governance mechanism that more is disclosed by cooperation because corporate risk disclosure decisions are mainly authorized by the owners and the board (Ntim, 2013). With the guideline and increased knowledge on the importance of corporate risk disclosure, it makes most organizations to disclose more, not only to adhere to the law but also for their own benefit as their performance will improve, financing through cost of capital will be lowered, receive immense support from influential stakeholders of the organization.

With the increase need of better corporate governances practice by many stakeholders' little research has focused on the effect of corporate governance mechanisms on quality risk disclosure specifically here in Kenya and other developing countries. Most studies done have mainly focused on the factors and reasons for engaging in corporate risk disclosure (CRD) and its extent. Most factors being considered in this studies are the general firm characteristics such as industry and size can be shown by a studies conducted by Lajili and Zeghal (2009) also by Rajab and Handley (2009). Studies investing how corporate governance mechanism may affect the quality of corporate risk disclosure are quite scares and they include studies by Abraham and Cox (2007), Elzahar and Hussainey (2012). Barako (2007) and Muturi (2018) are the only studies here in Kenya that focuses its research on the effect of corporate governance on quality risk disclosure. With the scarce information available it will limit my understanding as to how and why CG may have a positive or negative impact on CRD.

Abraham and Cox (2007) studies show the effect of having independent and dependent executive directors on the board. This study found out that having dependent executive directors on the board as full time employees is hard for them to control what the managers do. Agency theory propose that executive directors have little incentives concerning risk disclosure and risk management. While he found out that having independent executive directors on board bring a balance in the board as they represent the owners interest, and as stated by Ntim (2013) that it is the board that all risk disclosure and other decisions are implemented and carried out from, thus this study shows that with independent non executive directors have a stronger significances in ensuring that there is a great transparency and accountability of shareholders shares and his results are in line with (Barako, 2007)

Board directors play an important role in corporate governance specially in publicly listed companies. Study by Elzahar and Hussainey (2012) and also a study by Ntim (2013) focused on corporate governance mechanisms such as board size and independent directors. The study found out that having a board size that is large and has different various people has a greater chance at monitoring the directors and they have greater incentives for risk management and they are able to challenge the directors in reporting quality risk disclosure. Also the study found that having a board that is diverse increases quality risk disclosure, these findings seems to also agree with Ntim (2013) as he found out that board diversity in terms of gender and ethnicity also increases quality risk disclosure.

## **1.2 Nairobi Security Exchange (NSE)**

It was founded in 1954 and it is the leading African exchange. It was previously known as Nairobi Stock Exchange but later on in 2011 it changed its name to Nairobi Security Exchange. In 2014 it receives approval from the Capital Market Authority to operate as a demutualized entity as they were to offer its shares to the public and self-list its share on the main investment market in NSE. It offers a trading platform for equities, bond and quasi for both the local and international investors who are looking to gain some exposure in the African economic growth. It mainly helps in improving the growth of the economy as it encourages savings and investments as well as helping companies in acquiring cost effective capital. NSE has 67 listed firms that have been categorized into the following sectors; agricultural, commercial and services, technology and telecommunication, automobile and accessories, banking, insurances, investment, investment services energy and petroleum, construction, manufacturing, real estate and exchange traded fund's is regulated by the Capital Market Authority

Capital Market Authority is an independent public agent that was established by an act of the parliament. It is a government regulating body that is responsible for supervising, licensing and monitoring the activities of the market. It is also involved with approving public offers and listing of securities that are traded in the NSE. CMA regulates and develops the capital market through a framework that tries to meet its objectives. In 2015 the authority established code of corporate governance but kicked off in 2017 and it mainly sets out the recommendation and principles on the process and structure in which listed firms should adopt in order to make good governance their culture in the organization. The code was established as a result of business environmental changes and wanting to meet global practices. The CMA also issued a scorecard that's used internally to monitor and measure the level of governances and a template on corporate governances that help the organization on committing to governances. These firms are required to issues out their corporate governances' report as they issue their annual reports.

## **1.3 Problem Statement**

Due to increased major corporate scandal and fraudulent activities that has occurred both in the developed and developing countries it has highlighted the need for better corporate governance through accountability and transparency thus highlighting the need for more to be disclosed by shareholders and other stakeholders as they are the ones affected by the collapse of these organizations. Stakeholders being the main risk beneficiaries want more to be disclosed mainly because they face the shortcoming of information asymmetry as they do not have adequate

information to help them to ascertain the risk profile of a company before investing in it (Mokhatar & Mellet, 2013). Stakeholders are also in pain mainly because they have little confidences on the various companies they wish to invest in as they fail to disclosure more than what is required of them thus one cannot be too certain concerning the companies' risks.

Previous studies done on corporate governances' mechanisms that could have either a positive or negative effect on the quality of corporate risk disclosure have showed a mixed result in relation to the variables that the researcher will be studying. Cheng and Courtenay (2006) found a negative relation in terms of board size and the quality of risk disclosure ,while majority of studies tend to have agreed on having independent executive directors on the board and a few research focused on having gender as having an effect on risk disclosure and the little studies done shows mixed results. Here in Kenya its only two studies (Muturi, 2018)& (Barako, 2007) that have been done that tries to explain the corporate governances mechanisms that other developed countries have found to have an effect on risk disclosure could be the same case here in Kenya. Between the two studies done here, Muturi (2018) found that board size had no significant relationship with the risk disclosure while Barako (2007) found a significant relation between the two variables. As a result of this differences (gap) I will be able to enhance this research by enhancing the findings and also challenge the finding of these two studies.

Majority of studies done before have mainly focused on various determinants such as firms' characteristics if they affect the extent of risk disclosure, very few studies have been done on corporate governance variables thus this will be a limitation when carrying out my research as there is little to borrow from, especially in the developing countries. With the studies done here in Kenya they also focus on a few governance mechanism and therefore this paper tries to find out if gender, board size and having independent executive directors on the board as having an effect on the quality of corporate risk disclosure. This research is also aimed at determining the extent of quality corporate risk by listed firms if they go over and above what is expected of them or they just disclose what is mandated of them as there is no empirical evidence that they do more than what is required.

## **1.4 Research Objectives**

### **1.4.1 General research objectives**

To establish the relationship between corporate governance and corporate risk disclosure among listed firms in Kenya.

#### **1.4.2 Specific research objectives**

- 1) To examine the extent of corporate risk disclosure.
- 2) To determine if independent executive directors have an impact on corporate risk disclosure.
- 3) To examine the effect of board size on corporate risk disclosure.
- 4) To find out the effect of gender on corporate risk disclosure.

#### **1.5 Specific research questions**

- 1) How to examine the extend of corporate risk disclosure?
- 2) Do the independent executive directors have an impact on corporate risk disclosure?
- 3) How does the board size of an organization affect corporate risk disclosure?
- 4) Does the type of gender affect corporate risk disclosure?

#### **1.6 Scope of the study**

The study focuses on the impact of corporate governance on the corporate risk disclosure. Corporate risk disclosure is the dependent variable while corporate governance is the independent variables, that is for corporate quality risk disclosure to occur an organization must have good corporate governance. This study will focus on firms in Kenya and specifically the listed firms in the Nairobi security exchange (NSE) due to the availability of information as listed companies disclose their information publicly as per the requirements. This study will focus its findings for a period of 4years from 2015 to 2019.

#### **1.7 Significance of the study**

##### **1.7.1 Investors**

Increased risk disclosure helps to increase the investors' confidence due to the increased transparency which also helps them to make improved judgement about a company's risk profile and performances thus reducing agency problems as there is increased transparency and commitment to disclose more (Linsley & shrives, 2006). Investors can also use the information provided on risk corporate to influence the price decision thus improving the market liquidity by reducing the information asymmetry (Elshandidy & Neri, corporate governance,risk disclosurepractices and market liquidity, 2015).

##### **1.7.2 Managers**

Managers or directors of companies will be required to be accountable and to effectively communicate to its shareholders concerning the risk profile of the company, the various risks that are affecting the company, the strategies and the actions that it will undertake in order to

cease the available opportunities and how they will be able to manage the risk (Beretta & Bozzolan, 2004) and (Linsley & shrives, 2006).Directors doing so will reduce agency problems and leads to an increase in transparency and commitment.

### **1.7.3 Regulators**

Due to the increase need of corporate risk disclosure, regulators are faced with the challenge of forming a comprehensive framework that will entail the nature of risk, type of information to disclose, the manner in which to disclose it. Regulators coming up with such a framework will lead to uniformity among the various companies in various regions (Adamu, 2013).Here in Kenya it is the government through the capital market authority that mainly comes up with policies and practices to regulate firms.

### **1.7.4 Academicians**

This paper is also going to help the academician and researchers as there is a gap in terms of corporate governance mechanisms and how they can be effective in disclosing corporate risk. They will also be able to learn the importance's of having better internal controls that will help in enhancing their corporate governance to improve corporate disclosure and also they will be able to differentiate between quantity and quality of the risk disclosed as research will go in depth to find out what makes a disclosure to be of more quality than the other (Elshandidy & Neri, corporate governance,risk disclosurepractices and market liquidity, 2015).

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter is mainly going to focus on the effect of corporate governance on corporate risk disclosure and it shall focus on the theoretical and empirical literature of this study. It tries to mainly connect the relation between good corporate governance and quality risk disclosure. This chapter is presented as follows; concept, theoretical literature, empirical literature, conceptual framework and the operationalization of variables.

#### 2.2 Corporate Governance

Khan (2011), defines corporate governance as the customs, process, procedures, policies and law that directs the organization in the way to act, administer and control its activities. It mainly tries to achieve the organizations goal and manages the relationship amongst stakeholders. It also involves accountability of individuals as being a control mechanism to reduce the agency problem. According to Kenani and Bett (2018), defined corporate governance as the process and structure that is used to guide and direct the business operations towards corporate accountability and achieving of long terms goals of the organization in relation to the shareholders' interests. The most important pillars in corporate governance are accountability and transparency by organizations. Corporate governance transparency deals with disclosing information concerning decision making process, procedures and how the organization functions. It is a formal system of accountability of senior managers to shareholders as well as it tries to create a corporation that is transparent (Taru & Omandi, 2013).

Organizations with good corporate governance structure are more effective in managing the financial risk. Importance of corporate governance arises due to the separation of ownership and management Some of the benefits of good corporate governance is that it leads to efficient use of resources both in the organization and the larger community. Corporate governance also helps to improve responsiveness of firms to societal expectations which in turn leads to improved performance by the organization (Haniffa & Hudaib, 2006). Another Study by Elshandidy and Neri (2015), tries to explain the significances of having an important relationship between corporate governance and corporate risk disclosure by emphasizing on the need that annual reports needs to be fair balanced and easily understood. It also states that the narrative sector of the report should not be in conflict with the financial statements. Having good corporate governance is an internal control mechanism as this practices helps

organizations in achieving their objectives in the best manner. Effective corporate governance ought to imply a balance between shareholders' interest and stakeholders of the organization which will lead to an increase in transparency thus promoting foreign investment by foreign companies (Khan, 2011) .

Lack of good corporate governance increases chances of corruption and bribery to flourish in the economy thus suppressing economic decisions. Poor governance makes the internal control systems to fail to detect the financial failures. Organizations with good corporate governance have the ability to improve on their services and maintain a good quality services to its stakeholders. Good corporate governance ensures that the business environment is fair and transparent and that organizations can be held accountable for their actions. Organizations with good corporate governance increase trust and confidence of the public as their activities are open, clear and there is honest accountability (Kenani & Bett, 2018). Every organization should try and engage in good corporate governance as it mainly has a positive effect on the growth of the organization and the economy as a whole.

The corporate governance mechanisms that this study will focus on is the effect of the size of the board, the board composition in terms of gender and independent and dependent directors have either a positive or a negative impact on quality risk disclosure. The board should have a mix of both the independent and executive directors mainly because there will be diverse knowledge and perceptions concerning risk disclosure thus having an impact on disclosure as it is the board that is concerned with what is disclosed in the annual report yearly (Abraham & Cox, 2007). Executive directors are full time employees therefore it minimizes their chance of monitoring the activities of the management.

Board size of an organization is more effective at monitoring the operations of the organization as they have different perspectives and have more incentives to signal the shareholders on the risk the organization is facing. (Elzahar & Hussainey, 2012) A study by Cheng and Courtney (2006) argues that an increase on the board size means an increase in the number of members which leads to poor communications and poorer and slower decision making that is associated with large groups. It is argued that an organization with an effective board size leads to an increase in the quality of information being disclosed.

Corporate risk disclosure is closely inter-linked with the corporate governance structure as it is the corporate governance structure that mainly has an impact or an effect on the quality of risk disclosure. Corporate governance structure is mainly mandate by an organization who do wish

to achieve its long term goals in the right and most ethical manner, thus organizations with corporate structure ends up affecting the entire country as regulators are also challenged to come up with a framework on corporate risk disclosure so as to enhance uniformity in the risk disclosed thus having a steady and sustainable growth in the economy.

### **2.3 Corporate Risk Disclosure**

Every organization is faced by one risk or another (financial or integrity risk) therefore they need to communicate this risk to its investors so as to assess the risk profile of a company. Directors of organizations are required to disclose about the risk its facing in their annual reports. Annual report is a mandatory document that is to be produced on a yearly basis by the directors of the organizations and is to provide additional information so as to enhance in decision making process (Amran & Hassan, 2008). The format and content of the annual report is guided by the company's act ,the generally accepted accounting principles(GAAPs)and for listed firms they are guided by the stock exchange (Firth, 1984).

Linsley and Shrives (2006) and Muturi (2018) defined risk as a set of outcomes arising from decisions that can be assigned probabilities and uncertainty as a variability where probabilities cannot be assigned. It is also defined as inescapable element of any business venture (Amran, 2008). Risk has also been defined as uncertain future events that could affect the achievements of the company's objectives (kakabadse, 2001). Risk is the unexpected uncertainty in future due to the inconsistency in the expected outcomes. Risk disclosure is important to investors as it helps the them to know the degree of uncertainty of the risk they are investing in.

According to Linsley and Shrives (2006), risk disclosure can be defined as any opportunity, prospect, danger, harm or exposure that an individual is aware of an has or might impacted have impacted the company in one way or another. Risk disclosure has been classified into either mandatory or voluntary. According to Oliveira et al (2011), risk disclosure is mandatory if they are provided as a consequences of clear accounting standards or security exchange requirements, while information disclosure will be voluntary if it involved management decision or discretion in terms of materiality. Meek et al (1995) defines voluntary risk disclosure as free choices on the part of the companies management accounting and any other information deemed necessary to help in decision making by the various users of annual reports.Mandatory disclosure of risks is done by regulaory reports and any other regulatory filing while voluntry risk disclosure are made in addition to the mandated ones.

Due to the increase in complexity of doing business, risk management has become an integral part of an organization. It is mostly concerned with management and disclosure of risk. Risk management has been defined as methods and process used by an organizations to manage risk and cease any opportunity that may arises that is in line with the organizations objectives (Amran & Hassan, 2008). Risk management is important so as to ensure that shareholders wealth is maximized as it is involved with profit maximization, also risk management helps in reducing corporate and fraudulent activities (Solomon, 2000). On the other hand, risk disclosure has been defined by Beretta and Bozzalon (2004) as communication of information that has an effect on the expected returns. Also according to Linsley and Shrives (2006) risk disclosure is the additional information that is provided in the annual reports and has either a positive or a negative impact to the organization.

Lajili and Zegha (2009) on their paper they talk about the different levels in which risk information is communicated to the various stakeholders. It is mostly carried out in three different levels, that is internal, external and intermediate. Internal risk reporting entails communicating risk, the measurement the process development to its internal stakeholders (managers and employees). This information is mainly communicated to them so as to help in effectively running of the organization. This type of reporting is mostly informal as it takes the form of meetings in the organization. Intermediate reporting is mainly done to the board of directors and its mainly done to ascent them that management control measures are good and that the organization is handling any risk related issue successfully. Lastly external reporting is commonly referred to as public disclosure. It is mostly done by firms that use external financing and its mostly mandated by various regulatory.

Risk is classified into six categories that is financial risk, operational risk, empowerment risk, strategic risk, integrity and technological risk (Abraham & Cox, Analysing the determinants of narrative risk information in uk, 2007). Financial risk is the risk that is mostly disclosed followed by strategic then lastly integrity risk (Linsley & shrives, 2006). Most of the organizations tend to disclose more of financial risk than any other risk and they avoid disclosing the expected impact in quantitative terms and they also do not disclose if the impact will affect them negatively or positively. Some of the importance of risk disclosure are that it reduces the investors uncertainty and diversity in opinions on the market valuation, it also helps in forecasting the future revenues expected and it is also a reliable indicator of price sensitivity (Amran & Hassan, 2008). The only disadvantage with disclosure of risk information is

investors would not take risks as they are able to know if they will gain or make a loss in their investments.

## **2.4 Theoretical Review**

### **2.4.1 Agency Theory**

It was founded by Stephen Ross and Barry Mitnick. Agency theory is the relationship between agents and principals, whereby the agent carries out tasks and services on behalf of the principal after being given the authority to make decision making (Jensen & Meckling, 1976). In corporate governance it is basically the relationship between the shareholders(principle) and the directors of the company(agents). The shareholders are the owners but they elect the directors to take and make decisions from them. It brought the need to implementing various control mechanisms so as to control what the agent does (Panda & Leepsa, 2017). It has also lead to the principal incurring various cost such as monitoring cost and bonding costs so as to regulate the activities of the agents (Barako, 2007). One of the major problem that agency theory faces is the agency conflict that mainly arises due to the opportunistic behavior by agents who work against the welfare of the principal as they performing for their own selfish interest.

One of the major assumptions is that there will be goal conflict among the two parties as the interest concerning various issues may collude leading to them (agent and principal) taking in different course of actions instead of one common objective. Another assumption is that an agent has an advantage over the information he has as they are involved in the day to day running of the organizations as they are aware of what is going on and they know their abilities and preferences. Some of the weakness of this theory is that shareholders are not involved in the day to day running of the organization and therefore they cannot fully comprehend the critical decisions or evaluate its nature as they are concerned with maximizing their returns. With such a dilemma it gives the agents an added advantage as they can engage in their own activities to achieve their own personal goal and get away with it as the shareholders have full trust on them to act in accordance with their interest (Barako, 2007).

Another weakness of this theory is that independent directors are likely the cause of conflict between the managers and the shareholders as they have no relationship between the two stakeholders as they only give true and objective opinions (Elshandidy & Neri, corporate governance,risk disclosurepractices and market liquidity, 2015).This argument can also be used to develop hypotheses on the outcome of independent directors on corporate disclosure as independent directors have more chances to increase voluntary corporate risk disclosure.

This theory suggests that the directors on the board to have a mix of both internal and external corporate directors whom have different views and opinions depending on corporate risk disclosure (Abraham & Cox, Analysing the determinants of narrative risk information in uk, 2007).

As per this theory the monitoring role of the board management is to make sure that the management pursue the interest of shareholders. Companies with directors from outsider are more effective in performing the monitoring role and giving advice to the internal directors thus affecting the quality of corporate risk disclosure (Elzahar & Hussainey, 2012). Non-executive directors act as a balance and check between the owners and the managers as they minimize the agency problem leading to an effective board which in the end may lead to more being disclosed. Boards with diverse ethnic and gender groups can enhance the monitoring role by improving the board independence and an increase in the number of members of the board leads to having an effective monitoring role and a diverse knowledge thus an increase in corporate risk disclosure (Ntim, 2013).

#### **2.4.2 Stakeholders Theory**

This is a theory that was established by Edward Freeman stating business needs to create value to its stakeholders not just its shareholders. Stakeholders are people who have an interest in the organization and ought to be recognized and considered when creating value to the organization and it ought to be in line with the shareholders' interest. The stakeholders include its customers, suppliers, government, employees and the community at large. This theory considers any individual or group that is either affected or has an effect to the organizations achievement. This theory considers corporate risk disclosure as a tool that is used by most organizations to manage or use the information of the stakeholders to acquire support from them. This theory has a close association with corporate social responsibility as the business needs to ensure that they maintain the ethical standards required by the law. Stakeholder theory mainly highlights the importance of having independent executive directors as a good corporate structure as they try to enhance a balance between the various stakeholders as well as improving the effectiveness of the board (Ntim, 2013). This theory holds that the success of a company is dependent on how it manages its relationship with other stakeholders therefore, the organization needs to manager the various stakeholders who are affected by the organization or the decisions they make (Muturi, 2018).

This theory is applicable whereby if the company increase the number of stakeholders it leads to an increase in the companies size thus more is disclosed so as to cater for all these stakeholders that are in need of the information (Amran & Hassan, 2008). Research by (Ntim, 2013) shows that when a company engages in corporate risk disclosure it is an strategy to gain support from influential corporate stakeholders(government, regulators and employees) and it may help in conducting economic operations. They also state that having a large board means having a greater access to the external stakeholders' thus reducing their uncertainties. Having a large board is applicable when the company wants to make better and informed decisions mainly because a large board has a range of diverse knowledge on business practices from the various member thus they improved decisions are made (Ntim & Lindop, 2013). Having a board that has diverse background can help in creating a link to the other stakeholders and there will be better understanding of all stakeholders which will increase the companies' credibility and prevents blind sidedness by interests that are not of important. Having independent executive directors on board is a way of minimizing agency problem but it also helps in pushing forward the interest of other stakeholders (Ntim & Lindop, 2013)

The main assumption of this theory is that an organization think that it can meet the interest of the stakeholders at a balanced point, which is close to impossible mainly because these interest have to be in line with the shareholders' interest. Another assumption is that most the companies that use stakeholders' theory tend to focus more on satisfying their stakeholders than focusing on the main agenda of the business which should be profitability. One of the main weakness of this theory is that not all stakeholders can be pleased to the maximum of a 100%. Since these theory has a large number of stakeholders and each stakeholder have their own interest it becomes a challenge to please all of them thus a party has to suffer in the expenses of another. Another limitation of this theory is the inability to have an influences in the decisions of a company this may be due to low power and the internal influences. As much as an organization has the interest of all the stakeholders in mind these stakeholders have low power in involvement of decision making.

#### **2.4.3 Signaling Theory**

It was first developed by Michael Spencer in the year 1973. The theory mainly tries to explain managers' incentives to disclose more information in the annual reports. It involves managers disclosing adequate information so as to signal certain information to its current and potential users. The information disclosed is quite important to the shareholders as they are able to know those directors who are engaging in fraudulent activities and they are able to face the

consequences (Elzahar & Hussainey, 2012). Morris (1987), states that the theory tries to address information asymmetry in the market. It tries to explain how asymmetry of information can be reduced by the party that has more information signaling it to others.

This theory is mainly used to describe the relationship between two parties and how they have access to information. One party that is the sender ought to know how to communicate the information to the other party(signal) and the receiver should be in a position to interpret the information provided (Connelly, Carto, & Ireland, 2010). This theory assumes that firms' managers know more about a firm than the outside investors as they have perfect information while the investors have imperfect information therefore they cannot know which firm is of high quality or low quality. It is also based on the assumption that information is not readily available to both parties at the same time and it is not equal to both of them. Its main assumption is the information asymmetry.

Signaling theory can be applied in terms of having a large board size, the members are at an advantage as they have more incentives to signal their risk management performance to its shareholders. Also the board will have members who have accounting and financial background who will affect the directors' decisions in disclosing more corporate risk (Elzahar & Hussainey, 2012) . One of the major weakness of this theory is that it as imperfect information thus investors can not differentiate between high quality and low quality firms thus affecting their decisions. Another weakness is the problem of communication mainly because the receiver of this information is not sure if the sender is saying the truth or is trying to convey a different message because of his own interest. Another weakness is that the sender has to perused the receiver that he is telling the true even if his not. This is the problem of information asymmetry.

## **2.5 Empirical Literature**

Majority of the previous research done has mainly focused on the quantity of information disclosed then later on it is used in determine the quality of the risk disclosed (Beretta & Bozzolan, 2004). This research is going to focus on a number of corporate governance mechanism such as the board size, if gender affect corporate risk disclosure and how having independent executive directors affect corporate risk disclosure. Previous studies done have focused on firm generally characteristics and few studies have been done on corporate governance mechanisms thus little information is available thus a huge limitation on my research. Studies have been done in various countries both international and African continents

and thus a diverse information of factors that affect quality risk disclosure with various regulations of the various countries.

Beretta and Bozzolan (2004) study was mainly on 85 Italian stock exchange companies focusing on Management Discussion and Analysis (MDA) section only. They identified 75 different risk information being disclosed in the MDA. They found out that companies do communicate the impact in quantitative terms of these risks and the economic directions. Also most companies were reluctant to disclose if the risk will affect them positively or negatively but were more concerned about the past and present risk. They mainly focus on the industry type and the size of a company if it had any effect in terms of disclosing and they found no association between the two variables and the level of risk disclosure.

Linsley and shrives (2006) study examined the relationship between corporate specific characteristics and risk disclosure by using the UK listed companies. They used content analysis to measure risk disclosure and they found a total of 6168 risk sentences were identified and they were in agreements with the previous study done by Lajili and Zeghal and they found that the main risk to be disclosed is the financial risks followed by strategic risk and the integrity risk. They found a significant relationship between company size and risk disclosure and no relationship between leverage and risk disclosure. They concluded that most companies with higher risks do not provide sufficient information to its stakeholders.

Cheng and Courtenacy (2006), did their research in Singapore and they found out that independent non-executive directors do have a positive relation in disclosing of risk mainly because independent directors have greater control over managerial decisions. Independent directors have control over their decisions as they are exercising shareholders interest. A board with independent directors have an impact on important decisions that are carried out by the organization thus there is a less like hood of fraudulent activities. This study tries to explain how independent directors are the governances of shareholders as they try to protect their assets and investments from being misused as shareholders are main the risk beneficiary.

Abraham and Cox (2007) carried out their research in UK and specifically the listed companies. The study found out that having independent and dependent executive directors on the board as full time employees is hard for them to control what the managers do. Agencytheory propose that executive directors have little incentives concerning risk disclosure and risk management. While he found out that having independent executive directors on board bring a balance in the board as they represent the owners interest. Therefore, having independent

directors on the board increases the quality risk disclosure as they are involved in making the decisions concerning the organisation. Independent directors play an impact in the organisation by increasing transparency and accountability.

Another study that focused solemnly on corporate governance and specifically on board diversity; age, gender and education in Australian context by (Kang, Cheng, & Gray, 2007). This study will help the researcher know if gender affects corporate value of a firm and examines its extent of gender to increase in corporate risk disclosure. From their findings it is evident that having women in the board composition is of great advantage mainly because women tend to be more independent and they can reach to the various stakeholders easily and cease opportunity for the organization. Therefore, their paper will enrich my study as they discuss the importance of gender on board as they create a competitive advantage. They also show the importance of having independent executive directors on the board as they are independent of the others and they act as an internal control mechanisms and they are mostly not known to the other stakeholders so that they remain independent of the organization and act in the interest of shareholders.

Study by Oliveira et al (2011) done in Portugal concerning risk related disclosure in non-financial firms. They used content analysis to measure for risk disclosure and also used regression analysis. In relation to my variables of the study they found out that independent executive directors' monitor activities of the company and they are not influenced by the corporate insiders thus their decisions or judgment cannot be affected compared to the non-executive directors who face a lot of risk as they do not have a lot of involvement in the organizations activities. They focused on the firms' characteristics more in their study and they found a positive association between company size and leverage with risk disclosure.

Elzahar and Hussainey (2012) study was done on the UK companies (72) and it mainly focused on firms' characteristics, corporate governance and risk reporting. They mainly used content analysis and regression analysis to determine the extent of risk disclosure. The study am doing focuses on corporate governances therefore, I will use his findings on corporate governance to make this study richer in content. The results of the study were that board size had a positive relationship with the quality of risk disclosed mainly because an increase in board size means an increase in expertise and also improved monitoring role. They also found out that independent directors play a major role as they ensure that the management I after the interest of the shareholders.

Another study done in Egypt mainly focused on the effect of corporate governance on developing markets and they argued that having independent executive will increase the role of monitoring the management as the directors are not full time employees and they may also improve the quality of financial statements and less fraud in the financial statements as they are performing in the interest of the organization. They also found a positive association between board size and the risk disclosure mainly because a large board leads to an increase in expertise and in making strategic decisions thus firms with large board size tend to disclose more than the mandated (Samaha, et al.,2012).

Mokhatar and Mellet (2013) did their study in Egypt and mainly focused their study on listed companies and found that board size to have an impact on risk disclosure suggesting that a large board tends to comply with the mandatory requirements and also tend to voluntarily disclose more. Ntim and Lindop (2013) did their research in South Africa at the time of financial crisis period and they found out that the board diversity in terms of gender and ethnic had a positive impact and also independent executive directors and the board size had an effect with corporate risk disclosure.

Rashidah and Yaseen, (2013) Study mainly focused on corporate governance mechanisms that had an impact on the organization engaging in voluntary disclosure. Their study mainly focused in Saudi Arabia and they mainly found a positive association between the non-executive directors with the level of voluntary disclosure mainly because the agency problems arise due to directors maximizing on their interest thus this leads to shareholders giving the board authority so as to enable the directors to act in accordance. In relation to the board size they also found a significant positive relation between the two variables as they argued that having a large board has a variety of knowledge and also the ability to manage the company.

Ntim (2013) conducted a study in South Africa the research mainly found a positive association between the board size, the independent executive directors and even gender to have an impact on risk disclosure and he mainly argued that having a diverse board enables the organization to reach to the various stakeholders easily as well as independent executive directors have a positive effect on the organization's performance and disclosure.

Elshandidy and Neri (2014) their study focused on companies in Italy and the UK and the corporate governance mechanisms that he focused his study on was board size and independent directors and he found out that they both had a significant relationship with the quality of risk disclosed. He argues that independent directors do not have any close association with the

management thus they will give independent decisions that are in the best interest of the shareholders and they are less likely to start any problems. While the bigger the board the better the management.

Buckby et al (2015) carried out research in Australia where they examined the effect of risk management disclosure and they found out that having independent executive directors on the board increases the chances of a company increases their information on risk on their annual reports therefore they found a positive association between the two variables mainly because these directors increase their monitoring roles.

Alessandra et al (2016) carried out the research on the Italian listed firms mainly focused on the board roles on risk disclosure and they mainly focused on the mechanisms of the board such as the board size and it is seen as a fundamental feature that affects the effectiveness of the board. Large board may lead to less effective decision making and coordination while agency theory argues that having a large board leads to an effective monitoring role. They found that board size had no effect of risk disclosure. In terms of board diversity in terms of gender they found out that a board with more women then to affect the risk disclosure as women are more effectives and are concerned about accountability and transparency. Their study also found that having independent executive directors as having a negative association with risk disclosure

Few studies have been carried out here in Kenya. There are only two studies that have been done in Kenya and that is by (Barako, 2007) whose main aim was to identify the level of voluntary risk and the factors that affect risk disclosure. His study mainly focuses on the firms listed in the NSE for a period of ten years and he used a disclosure index and regression analysis in measuring the level of risk disclosure. He found a positive association between having independent board directors on board and risk disclosure stating that these directors have a chance of increasing risk disclosure in a firm and also that board size has an effect on risk disclosure.

Most recent study done in Kenya was done by Muturi (2018) when he did a study on determinant of social corporate disclosure on the listed firms in NSE where he used a disclosure index then used regression analysis(multivariate analysis).He mainly focused on the firms characteristics and he found a positive association between the size of the company, the industry type and profitability. He didn't really focus his study on corporate variables though he had stated that he would include them in his study but he did not. With this short coming it

leads to my limitation in carrying out my study as there is little to borrow as he should have been my pioneer in carrying out my study.

This paper is going to increase on the knowledge of the previous studies and to establish if the findings are similar or different and it's also going to help the researchers understand why certain corporate governance mechanisms are of essence when disclosing risk and also to examine in close relation the effect of executive independent directors as they seem to be a differences between the two studies done here in Kenya.

## 2.6 Conceptual Framework

According to (Sheilds & Rangarajan, 2013) conceptual framework is an analytical instruments with some variations and contexts used to make distinctions and organize ideas in a meaningful yet simplified way .The conceptual framework thus provide a way of comprehending how the independent factors(board size, independent executive directors and gender) affects the level of corporate risk disclosure. The conceptual framework that guided this research is presented below;

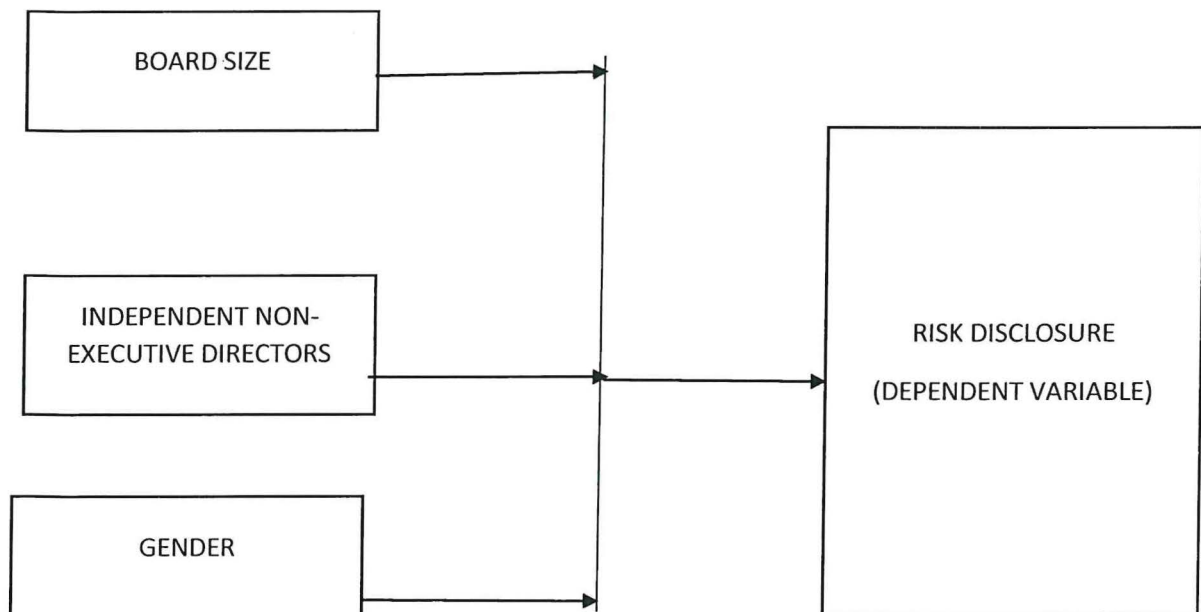


Figure 1 Conceptual Framework

## 2.7 Operationalization of Variables

CRD	MEASURE	SOURCE
BOARD SIZE	The total number of directors on the board of the company.	Collins Ntim,(2013)
GENDER	Percentage of females to the total number of directors on the board of a company.	Collins Ntim,(2013)
INDEPENDENT NON-EXECUTIVE DIRECTORS	Percentage of independent executive directors to the total number of directors of a company.	Collins Ntim,(2013)

*Table 1 Operationalization of Variables*

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter mostly examined the methods in which the research study was steered towards. It mainly helped one to understand the objectives of the study as it tried to explain the specific research design, the target population and the sample of the population, how and why it was chosen. The chapter further discussed the various methods used to collect data and analyzed it. By doing so it helped to ascertain if the results at the end of the study were valid and if they were in line with the specific objectives. In addition, it underlines the ethical issues that were faced during the research study period and how to go about it.

#### 3.2 Research Design

Kumar (2019) defines research design as a procedural plan that is used by the researcher to get answer of the hypothesis questions quantitatively, economically and accurately. It helps a researcher to understand an operational plan to undertake the various tasks in order to finish the study. The research design that was used is descriptive statistics which is the process of gathering data in order to test hypothesis or to answer the questions of the study. Descriptive statistics was mainly chosen for this study mainly because it tries to provide a brief summary of the sample and measures carried out in a particular study. This research is concerned with collecting quantitative data thus descriptive statistics suited this study mainly because it is used in presenting quantitative data in a simplified way thus making interpretation of data easy.

#### 3.3 Population and Sampling

Population refers to universal set of all elements in which the characteristics under consideration are present (Thomas, Nelson, & Silverman, 2010). The population for this study were all the firms listed in NSE which is 67 in number and these companies were all divided into 13 different categories. From the population the researcher created a sample and choose the most representative group that would fit the study.

Target population is the total group of individuals from which the sample is drawn from. The target population for this group was 35 listed firms in NSE. The target population was derived by excluding 4 companies that have been de listed and no longer trading. Financial companies have also been excluded from the study mainly because they operate under different regulations. The financial companies excluded were banks and insurances and they were a total of 18 firms and they used IFRS 9 and IFRS 15 respectively. Companies with missing annual reports were

also excluded from the study. With this target population the research ought to get valid results as data collected will be relevant and consistent as the firms chosen as those that have been continuously trading and the study will focus on a period of 4years from 2014-2018

### 3.4 Data Collection Method

This study mainly used secondary data, that is data that is already available to the various users. Most corporate organization used different channels of communicating information to its users such as use of media, press release, companies' website and annual reports (Mokhatar & Mellet, 2013).Data on independent variables shall be collected from the board composition of companies which is stated in the annual reports, data on statement of directors remuneration report and for the board size the research can use a control variable( Firm size) and measure the capital invested. Unweighted disclosure index shall be used to determine the level of risk disclosure because the study does not focus on a particular user group rather it focuses on all users of annual reports. From the previous study by Ntim (2013) the risk disclosure were measured on a range of 0 to 1 where 0 meant no risk disclosure while 1 meant that a company had a complete risk disclosure. Also from this study the researcher used the check list that was used in that study, as shown in appendix 1. Risk disclosure index formula to be used was;

$$RDI_j = \frac{\sum rdi^m}{nj} \times 100$$

$RDI_j$  is the risk disclosure index for the  $j$ th company,  $rdi$  is 0 if the item is not disclosed and 1 if its disclosed while  $nj$  is the maximum number of items reported.

### 3.5 Data Analysis and Representation

This study mainly used descriptive analysis for both dependent and independent variables so as to help understand the behavior of corporate risk disclosure. Descriptive analysis is mainly used in summarizing data collected in ways that are meaningful and conclusions are easily drawn and interpreted. The data collected was used to identify the relationship between the variables and it was both in quantitative and qualitative data. In order to analyze quantitative data descriptive analysis such as mean medium, maximum, minimum, standard deviation and frequencies will be used to analysis data. Qualitative data shall be analyzed using the Ordinary Least Squares regression model. This regression method was chosen mainly because it tries to establish the relationship between one or more independent variable and a dependent variable. As much as we are using this model we have to keep in mind its assumptions such as random

sampling of observation, it is linear in parameter, the error term should be normally distributed and conditional mean should be zero. For this study OLS was discussed in the context of multivariable model mainly because the study has more than one independent variable. Therefore, the OLS regression model to be used is;

$$\text{CRDI} = \alpha_0 + \beta_0 + \beta_1\text{BS} + \beta_2\text{NED} + \beta_3\text{BG} + \beta_4\text{CONTROLS} + \varepsilon$$

Where;

CRDI-Corporate Risk Disclosure Index

$\alpha_0$  -constant

$\beta_0$  - constant and it is the value of dependent variable when all the independent variable is zero

$\beta_1$ - $\beta_4$ - coefficient of each independent variable.

BS- is the board size

NED- non executive directors

BG- board gender.

CONTROLS- Control variable

$\varepsilon$  -error

## CHAPTER 4

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter will explain the findings from secondary data that was collected from 35 listed companies here in Kenya. These companies out of the total 67 companies were chosen mainly because they have been continuously trading for the four-year period, have annual reports that are easily available and have incorporated governance and risk disclosure policy in their annual reports. The findings will also be in relation to the objectives of the study and also the relationship between corporate governance and level of corporate risk disclosure here in Kenya.

#### 4.2 Sample and Data

Data was obtained from 35 listed companies on the NSE for a period of 4 years from 2014-2018 as shown in table 1. This comprises of 53.73% of all the companies listed in the NSE. The banking and insurance industry were excluded from the study as they used different IFRS compared to the other firms, thus the study focused on a total of 11 industries. Energy and petroleum energy had the highest representation of companies as they had a total of 67% followed by manufacturing and construction with a representation of about 54%, while the least represented industry was the real estate trust fund as they had zero representation.

#### 4.3 Results

##### 4.3.1 Descriptive Statistics

Descriptive analysis on all variables utilized in the model are provided in table 3. The dependent variable is Corporate risk disclosure and it has average of 62% and a minimum of 30% and a maximum of 85% showing a considerable range of difference between the companies on how they disclosure. Comparison to South Africa, Kenya is doing well as the disclosure index there was from a minimum of 17% to a maximum of 75%. With the comparison it shows that Kenya is disclosing more as the per required. This simply implies that most companies in Kenya are either on the high end or low end of disclosure, meaning that the not all companies are disclosing as per required and the listed firms can still enhance their disclosure so as to minimize on the difference.

The second variable is the board size which was measure by the total number of directors on the board. From the analysis BOS has a mean of 83% with a minimum of 3 % and a maximum of 16% this simply means that companies here in Kenya have at least 3 members and others companies have members to a total of 16 members. The mean here in Kenya was lower as other studies done in South Africa and in the UK found a mean of 11% with a minimum of 4 and a maximum of 21. This simply shows that Kenya is in line with the other countries and having a large board does affect the level of disclosure as there is different expertise and knowledge from the members.

The third variable is on how a board that has Independent Non- Executive Directors have an effect on the level of risk disclosure. From the descriptive statistics its shows that the BOI has a mean of 77% with a minimum of 0 and a maximum of 100%. In South Africa they found lower mean of 47% with a minimum of 5% and a maximum of 98%, then in UK they had a higher mean than that South Africa of 68%. This implies that most companies either have a board that comprises of INED or a board that does not have independent directors thus meaning that BOI has no impact on the level of risk disclosure as companies with either a majority of independent non-executive directors or a majority of executive directors are able to ensure that their companies are disclosing on risk as per requirements.

Board diversity is viewed on different aspects such as age, qualifications, gender, race and other factors. From the analysis board diversity was viewed from the point of gender and they found a mean of 18% with a minimum of 0 and a maximum Of 66%. This simply means that most companies don't have any woman on the board or a few considerable number on the board thus it shows that women(gender) do not have an effect on level of risk as their average is quite low.

The control variable is firm size and it has a mean of 64% with a minimum of 25%and a maximum of 88%. This simply shows that firm size does affect the level of disclosure, mainly because a large firm will want to meet all the requirements of their stakeholders thus they are bound to disclose more so as to satisfy their stakeholders.

	CRD	BOS	BOI	GND	FZ
Mean	0.626005	8.394444	77.72411	18.32018	6.429596
Median	0.638298	8	81.81818	18.46591	6.552592
Standard Deviation	0.118941	2.57078	13.49982	15.05563	1.152191
Kurtosis	8.440035	-0.19178	6.895375	0.14015	1.589432
Skewness	-2.15436	0.544012	-2.13168	0.539845	-0.89805
Minimum	30	3	0	0	2.589615
Maximum	0.851064	16	100	66.66667	8.837147
Count	180	180	180	180	180

*Table 2 Descriptive Analysis*

#### **4.3.2. Bivariate Analysis**

Bivariate analysis tries to explore on the relationship between two variables, that is how they are related and the strength between the two variables or it tries to explain the difference between the two variables. From the analysis on table 4 it is evident that the board size and the board independence have a strong positively correlated relationship of 30%, while the board independence and the gender also have a strong positive correlated relationship of 30% and the gender and firm size do have a strong positive correlated relationship of 20%. From this analysis it is evident that all the variables are positively correlated together and have a strong relation with each other.

	BOS	BOI	GND	FZ
BOS	1			
BOI	0.347521	1		
GND	0.323782	0.030994	1	
FZ	0.060025	-0.04719	0.201645	1

*Table 3 Bivariate Analysis*

#### **4.3.3. Multivariate Analysis.**

Table 5 below contains the results of fixed regression analysis of the effect of corporate governance on corporate risk disclosure. Corporate governance variables try to explain the significance of the difference in corporate risk disclosure. From this table one shall use the coefficients and the p values to analysis this data. The p value ought to be below 0.05 so as to show a positive statistical relationship with the level of risk disclosure. This analysis tries to explain the relationship between the independent and dependent variable if its either; positive

and significant or negative and insignificant or positive and insignificant so as to know the effect it has.

From the analysis board size has a positive statistically significant effect on the level of risk disclosure, therefore if the value of board size changes it affects the regression model by 0.015. Board size being positive and statistically significant means that a company with a large board size has a great effect on the level of risk disclosure mainly because many directors bring in different and diverse skills, knowledge and expertise thus leading to an increase in the level of corporate risk disclosure.

Board independence has a positive and statistically insignificant relationship with the level of corporate risk disclosure. This simply means that having directors who are independent and non-executive does not necessarily mean that they will enhance the level of corporate risk disclosure. Therefore, shareholders should not just appoint directors who will be overseers of the company but rather those who have knowledge of the market and what is required of them so that they may be able to enhance risk disclosure.

Board diversity in respect to the gender representation of the board has a positive and insignificant relationship with the level of corporate risk disclosure. This means that having women on the board does not guarantee one of any chance of change in the level of corporate risk disclosure. Therefore, women representation on the board does not add any value to CRD but rather what they bring on the company may have an effect thus it is better to have fewer and qualified women with the right expertise than many women with no added advantage.

The control variable for this study is the firm size and from the analysis it is clear that it has a positive and a statistically significant relationship with the level of corporate risk disclosure. This simply implies that a large firm is likely to disclose more compared to a small firm mainly because of the nature and the type of stakeholders it has. Large firms also disclose more mainly because they want to reduce on information asymmetry and agency costs.

From the regression model provided on table 6 the adjusted R is more significant than the R square as the adjusted r is an improvement of R square and it improves by 45% which tries to explain that a number of factors could lead to a variation in the dependent variable. It is evident that CRD is affected by more determinants than the ones this study has focused on. From ANOVA that is table 7 the f statistics is at 11% meaning it is significant to the study. Therefore, it is evident that the two variables are positively correlated.

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t stat</i>	<i>P -value</i>
Intercept	0.306968	0.067037282	4.579068	0.000
BOS	0.01578	0.003540882	4.456474	0.000
BOI	0.000486	0.000639219	0.759682	0.448
GND	0.000284	0.000577384	0.492253	0.623
FZ	0.022338	0.007139753	3.128659	0.002

Table 4 Multivariate Analysis

<i>Regression Statistics</i>	
Multiple R	0.44664
R Square	0.199487
Adjusted R Square	0.18119
Standard Error	0.107628
Observations	180

Table 5 Regression Statistics

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	0.505167583	0.126292	10.90249	0.0000
Residual	175	2.027159765	0.011584		
Total	179	2.532327348			

Table 6 Anova

#### 4.4. Conclusion.

In conclusion, the study finds that both board size and the firm size do have a positive and significant relationship while gender and board independence do have a positive and insignificant relationship with the level of corporate risk disclosure. Also it is evident that all the independent variables are strongly and positively correlated and that corporate risk disclosure is affected by more determinants than the ones this study has covered.

## CHAPTER 5

### DISCUSSION, CONCLUSION AND RECOMMENDATION

#### 5.1. Introduction.

This chapter will entail the discussion of the findings of the study based on the objectives, a recommendation to the various users of this study shall be discussed and any limitations that were incurred during the period in which the study was carried out.

#### 5.2. Discussion of the Findings.

The study's dependent variable is corporate risk disclosure while the independent variables include; board size, independent non-executive directors, board diversity(gender) and the control variable is firm size. From the study there was a positive and significant relationship between board size and firm size with the level of corporate risk disclosure while gender and board of independence found a positive but insignificant relationship with CRD. Each variable shall be discussed independently and in details.

From the results the board size has a positive and significant relationship with the level of corporate risk disclosure. These findings were supported by (Elshandidy & Neri, Corporate governance,risk disclosure practices and market liquidity, 2015) who carried out his study in the UK and Italy and they establish that a large board size brings in a lot of expertise, skills and a large board monitors the management team more effectively leading to regularly and quality information being provided to shareholders. Another study in support of these findings are (Mokhtar & Mellet, 2013) who did their study in Egypt and he focused on the listed firms only and they argue that a large board complies with the mandatory requirements and even voluntarily discloses more because a large board increases their companies awareness on the importance of disclosure.

However, these results are inconsistent with (Elzahar & Hussainey, 2012) who carried out his research in UK on 72 companies and he focused on the relationship between firm characteristics, governance and risk reporting and he argues that an increase in the number of board members does not mean that all the members are bringing in something of quality or are adding value as a large board could lead to laxity among other board members.

The relationship between board independence and the level of corporate risk disclosure is positive and insignificant. The results are consistent with (Ibrahim & Hussainey, 2019) who carried out their research in Saudi Arabia and they used content analysis as well as content.

Elzahar and Hussainey,( 2012) also found similar studies results.Contrarily these results are not in line with the findings of (Abraham & Cox, Analyzing the determinants of narrative risk information in UK annual reports, 2007), (Ntim, Corporate governance and risk reporting , 2013) and (Elshandidy & Neri, Corporate governance,risk disclosure practices and market liquidity, 2015) who found a positive significant relation thus establishing that having independent board directors on board affects the level of CRD. (Abraham & Cox, Analyzing the determinants of narrative risk information in UK annual reports, 2007) argues that non executive directors in greater number are of essence as they are able to disclose risk information to investors unlike the executive directors who according to agency theory as deemed as the cause of agency problem thus they may not be able to promote risk disclosure.

Board diversity in terms of gender had a positive and insignificant impact on the level of Corporate Risk Disclosure. Kong,Cheng and Gray (2007) found the same results in an Australian based context where the number of female representation on the board were quite few and didn't have quite any impact on the level of CRD. They argued that there are other factors in the board diversity that affects the numbers of male and female in the board which could have an effect on the level of CRD but not on gender. (Ntim, Corporate governance and risk reporting , 2013) found a positive and significant relationship between diversity and CRD and he argues that a diverse board brings in different expertise,experience and a wide range of market information thus improving the level of CRD.

The control variable for this study was firm size and the relationship between firm size and corporate risk disclosure is a positive and statistically significant relationship. These findings are consistent with (Linsley & Shrive, 2006) (Abraham & Cox, Analyzing the determinants of narrative risk information in UK annual reports, 2007) and (Elzahar & Hussainey, 2012) who carried out their study among the listed UK firms and they focused on corporate characteristics with risk reporting and they found that large companies do disclose more due to the nature of their stakeholders thus they have to meet their requirements. Agency and signaling theory are in agreement with these findings as they support that large firms do disclose more than expected mainly because they want to reduce on agency cost and information asymmetry.

### **5.3. Conclusion**

From the findings above it shows that there is a positive and significant relationship between board size and the level of corporate risk disclosure thus confirming to the set objective on board size. The study found no relation with the third and fourth objective as there was no

relationship between board independence and board diversity with the level of risk disclosure. From the findings it shows that there is a positive correlation between corporate governance and corporate risk disclosure.

#### **5.4. Recommendation**

##### **5.4.1 Investors**

With the increase need for better risk disclosure, companies will be forced to disclose more than the required so as to help the investors when making decisions on the companies to invest in. Companies will be required to disclose more on risk so as to help investors in determining the risk profile of a company.

##### **5.4.2 Managers**

With the need for better risk disclosure managers and directors of companies will be forced to be accountable for all that they are disclosing and the information they provide on the annual reports.

##### **5.4.3 Regulators**

Policy makers should ensure that all the listed firms are fully compliant with all the necessary codes and requirements so as to avoid huge variations between the CRDI and also ensure that there is an appropriate framework for companies to follow when disclosing risk information.

##### **5.4.4. Academicians**

Researchers still have a lot of room for research since corporate governance has such a wide range of variables that can be further looked into and also increase knowledge on corporate risk disclosure to companies and other users.

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

One of the challenges incurred was during data collection as a few of the listed companies were not publicly availing their annual reports thus making the process a bit hard and even some industry had annual reports that did not cover everything stipulated by the companies act and the code of governance. Due to unavailability of data from annual reports the research would not have precise findings and accurate data with in comparison to the others.

Carrying out this study the main document used in collecting data was the annual reports. Annual reports may fail to disclose all the information because companies may have used other media such as websites or stand-alone reports. Therefore, the use of only one document limits the availability of information and the accuracy.

Corporate code of governance was established in 2015 and it kicked off in 2017 meaning majority of the companies knew about the code but since It was not fully implemented most companies were not keen on disclosing and developing a good corporate culture until when the code was implement.

Majority of the studies done in relation to this topic are mostly done in developed countries thus the findings may have a significances difference because Kenya is a developing country and they have varying economies. Also few studies have been done in kenya concerning this topic and the few studies done have quite limiting information and ca not be relied on.

#### **5.6. Suggestion for Future Research.**

Corporate governance and risk disclosure is a wide topic and since there are still variables that have varying results even after constant research has been done on them, there is still more room for research on corporate governance characteristics on how they affect CRD and even CRD is still new in the research field thus there is more than can be research on.

From the limitation that majority of studies are in developed countries research should focus on developing countries so as to fully understand the effect of CRD on the two different countries, particularly in Kenya as countable research have been done here

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## 5.7 Appendices.

### Appendix 1

<b>Corporate risk disclosure (CRD) index</b>			
<b>CRD theme/type</b>	<b>CRD item: information on or reference to</b>	<b>Range of scores</b>	<b>Total score per theme</b>
	<b>Corporate financial risk disclosures</b>	0-1	
<b>(i) Financial</b>	1. Interest rates	0-1	
	2. Exchange rates	0-1	
	3. Commodity prices	0-1	
	4. Liquidity	0-1	
	5. Credit/default	0-1	
	6. Capital adequacy/insolvency	0-1	
	7. Equity prices	0-1	
	8. Financial derivatives/instrument	0-1	
	9. Executive compensation / bonus/ employee pension commitments	0-1	

	<b>Corporate non-financial risk disclosures</b>		
<b>(ii) Operational/ Business</b>	10. Competition/proprietary/copyright	0-1	
	11. Business processes and procedures/ operations	0-1	
	12. Technology/information technology	0-1	
	13. Health and safety	0-1	
	14. Environment	0-1	
	15. Reputation/ goodwill/ image/ brand name	0-1	
	16. Compliance	0-1	
	17. Legal	0-1	
	18. Sourcing/raw material	0-1	
	19. Production/product development	0-1	
	20. Marketing/ customer satisfaction/ boycott	0-1	
	21. Social contribution/ community support	0-1	
	22. Internal audit and control	0-1	
	23. Human resources/ employee/ labor turnover/ unrest	0-1	
	24. Integrity/management and employee fraud	0-1	
	25. Governance/ leadership and management	0-1	
	26. Product/service failure	0-1	
	27. Non/financial reporting/ disclosure/ communication	0-1	
	28. Business ethics/corruption	0-1	
	29. Off balance sheet/contingent assets and liabilities	0-1	
	30. Stock/service obsolescence and shrinkage	0-1	
	31. Disclosure of risk mgt. policies/board statement/responsibilities	0-1	
	32. Disclosure of risk governance/ committee existence	0-1	
	33. Disclosure of risk committee composition	0-1	
	34. Risk committee chairperson independence	0-1	

	35. Disclosure of risk committee members' meetings attendance	0-1	
	36. Disclosure of risk committee remit	0-1	
	37. Disclosure of risk committee membership	0-1	
<b>iii) Strategic</b>	38. Sovereign/politics	0-1	
	39. Regulation	0-1	
	40. Taxation	0-1	
	41. GDP growth/ market demand/ aggregate demand	0-1	
	42. Unemployment rate	0-1	
	43. Inflation rate	0-1	
	44. Natural disasters/terrorism	0-1	
	45. Money supply/quantitative easing	0-1	
	46. Oil price	0-1	
	47. Public/budget deficit	0-1	
<b>Total</b>	<b>47 CRD items</b>		
<b>Scoring procedure</b>			
0: No risk disclosure information			
1: Risk disclosure information			

## Appendix 2: NSE listed firms

<b>AGRICULTURAL SECTOR</b>
1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd
<b>AUTOMOBILES AND ACCESSORIES</b>
8. Car and General (K) Ltd

<b>BANKING</b>
9. Barclays Bank Ltd
10. Stanbic Holdings Plc.
11. I&M Holdings Ltd
12. Diamond Trust Bank Kenya Ltd
13. HF Group Ltd
14. KCB Group Ltd
15. National Bank of Kenya Ltd
16. NIC Group PLC
17. Standard Chartered Bank Ltd
18. Equity Group Holdings
19. The Co-operative Bank of Kenya Ltd
20. BK Group PLC
<b>COMMERCIAL AND SERVICES</b>
21. Express Ltd
22. Sameer Africa PLC
23. Kenya Airways Ltd
24. Nation Media Group
25. Standard Group Ltd
26. TPS Eastern Africa (Serena) Ltd
27. Scangroup Ltd
28. Uchumi Supermarket Ltd
29. Longhorn Publishers Ltd
30. Nairobi Business Ventures Ltd
<b>CONSTRUCTION AND ALLIED</b>
31. Athi River Mining
32. Bamburi Cement Ltd
33. Crown Paints Kenya Ltd
34. E.A. Cables Ltd
35. E.A. Portland Cement Ltd
<b>ENERGY AND PETROLEUM</b>
36. Total Kenya

37. KenGen Ltd
38. Kenya Power & Lighting Co Ltd
39. Umeme Ltd
<b>INSURANCE</b>
40. Jubilee Holdings Ltd
41. Sanlam Kenya PLC
42. Kenya Re-Insurance Corporation Ltd
43. Liberty Kenya Holdings
44. Britam Holdings Ltd
45. CIC Insurance Group Ltd
<b>INVESTMENT</b>
46. Olympia Capital Holdings ltd
47. Centum Investment Co Ltd
48. Trans-Century Ltd
49. Home Afrika Ltd
50. Kuwait Ventures
<b>INVESTMENT SERVICES</b>
51. Nairobi Securities Exchange
<b>MANUFACTURING AND ALLIED</b>
52. B.O.C Kenya Ltd
53. British American Tobacco Kenya Ltd
54. Carbacid Investments Ltd
55. East African Breweries Ltd
56. Mumias Sugar Co. Ltd
57. Unga Group Ltd
58. Eveready East Africa Ltd
59. Kenya Orchards Ltd
60. Flame Tree Group Holdings Ltd
<b>TELECOMMUNICATION AND TECHNOLOGY</b>
61. Safaricom PLC

<b>REAL ESTATE INVESTMENT TRUST</b>
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62. Stanlib Fahari I-REIT
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<b>EXCHANGE TRADED FUND</b>
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63. New Gold Issuer (RP) Ltd
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