Financial Information Voluntary Disclosure and Financial Performance of Manufacturing Firms Listed on Nairobi Securities Exchange

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Fredrick Otieno Ouma[1]; Dr. Gilbert Onchangwa[2]

Abstract:

Purpose: *The purpose of the study was to establish the effect of financial information disclosure on the financial performance of manufacturing firms listed on the Nairobi Securities Exchange (NSE).*
Material/methods: *The study relied on secondary data from 2017 to 2021 for 8 companies listed under manufacturing and allied sectors on the NSE. Descriptive and inferential statistical methods were employed, including correlation and regression analyses, to examine the relationship between financial information disclosure and financial performance. The analysis was conducted using STATA 15.*
Findings: *The results indicated that financial information disclosure has a positive but statistically insignificant effect on the financial performance of listed manufacturing firms at the NSE.*
Conclusion*: The study concluded that financial information disclosure positively influences the financial performance of listed manufacturing firms at the NSE, though the effect is not statistically significant.*
Value: *The study recommended that listed manufacturing firms should adhere to International Financial Reporting Standards (IFRS) and ensure full disclosure of financial information to stakeholders. Additionally, it highlighted the need to increase voluntary disclosure to improve firm performance. For policymakers, the study suggested developing and implementing policies to enhance social accounting information disclosure.*

Keywords*: Financial Information Disclosure, Financial Performance, Listed Manufacturing firms, NSE*

Paper Type: *Research Article*

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[1] Msc student, Jomo Kenyatta University of Agriculture and Technology ; Email: fredkitawiii@gmail.com

[2] Lecturer, Department of Accounting and Finance (DEAF), Jomo Kenyatta University of Agriculture and Technology

1. Introduction

Financial information voluntary disclosure is the provision of information by a company's management beyond requirements such as generally accepted accounting principles, where the information is believed to be relevant to the decision-making of users of the company's annual reports (Al-Theebeh, Ibraheem & Khaled, 2018). The demand for voluntary disclosure arises from agency conflicts and information asymmetry between outside investors and management. The management disclosures 'authority is heightened by standard setters, regulators, auditors as well as other intermediaries in capital market. Moreover, agency association exists between principal (shareholders) and agent (management). Information asymmetry between other stakeholders and management is the main issue. In this agency association, management benefit from information. Actions may be taken by an agent that varies with interests of other stakeholders (Hawashe, 2019). Finance voluntary disclosure gives better opportunity to use agency theory, in sense that firm 's private information can be easily accessed by management than outside owners and also investors can make reliable as well as plausible communication to the market in order to heighten firms'value by reducing agency relationships' costs.

Demand for voluntary disclosure arises from information asymmetry and agency conflicts between management and outside investors. The authority of management disclosures is enhanced by regulators, standard setters, auditors and other Capital market intermediaries (Consoni & Colauto, 2016). Agency relationship exists between shareholders and management; (Krismiaji, 2019). Htay, Aung, Rashid and Adnan (2018) in a study carried out in Malaysia found that higher profit firms have higher occurrences of disclosure in their annual report as compared to lower profit firms. Good corporate governance depends on the quality of accounting and corporate financial reporting which has now become a global issue. World capital markets are being shaken by a perception that financial information is either wrong or is very hard to understand and absorb. Global financial markets depend on quality information coming from public reporting of firm's financial performance. Non-disclosure of vital reports has made stakeholders to lack confidence in trading with such companies leading to a decline in performance (Tran, Nguyen, & Le, 2021).

These have shaken investor's faith in the capital markets and efficacy of voluntary disclosure practice in promoting transparency and accountability. Therefore, the aforementioned financial scandals strengthen the need for voluntary disclosures as most firms involved had their mandatory financial disclosures audited by the best audit firms and sanctioned by management. The mandatory financial statement disclosures in the annual reports of listed firms are not sufficient to give confidence to investors and other users (Masum, Latiff & Osman, 2020). Unqualified audit report is not fool-proof or guarantee of relevancy and reliability to good investment and lending decisions. The main issue is the information asymmetry between management and other stakeholders and in an agency relationship, management has information advantage. The agent may take actions that are at variance with other stakeholders' interests. Voluntary disclosures in annual reports present a better opportunity to apply agency theory. Management with better access to a firm's private information than external owners and investors can make plausible and reliable communication to the market. This enhances value of the firm by reducing the costs of the agency relationship (Nguyen, Wong, Phan, Tran & Moslehpour, 2021). The management

ought to disclose more information to the stakeholders to avert this cosmetic annual reporting which is insufficient.

The significance of financial information voluntary disclosure has been a critical topic in the context of corporate transparency and accountability, particularly in light of recent financial scandals that have eroded investor trust in capital markets. These scandals underscore the necessity for organizations to adopt robust voluntary disclosure practices alongside mandatory financial disclosures. Research indicates that mandatory financial statements alone are insufficient to provide stakeholders with the confidence needed for investment and lending decisions (Masum, Latiff & Osman, 2020). In particular, the existence of information asymmetry between management and stakeholders creates an environment where managers may act in their own interests rather than those of the organization or its investors. Voluntary disclosures can reduce this information gap and align management actions with stakeholder interests (Nguyen et al., 2021).

In Kenya, the manufacturing sector has faced challenges such as stagnation and declining profits, exacerbated by an unpredictable operational environment (World Bank, 2020). Such issues point to a gap in the nation's aspiration to achieve a fully industrialized economy by 2030. Factors like seasonal fluctuations and increased competition from cheap imports and counterfeits have impacted the market share of local firms significantly (GoK, 2021). The current climate has prompted calls for better integration of voluntary disclosures in the context of sustainable practices, particularly as firms encounter rigorous demands for transparency and accountability in order to improve their performance metrics.

A review of the existing literature reveals mixed findings regarding the impact of voluntary financial disclosures on financial performance outcomes within Kenyan firms. Studies conducted by Ng'ang'a (2016) and Mutiva, Ndirangu, and Anwar (2015) suggest that there is a positive relationship between certain types of voluntary disclosures and stock returns or financial performance. Conversely, other research indicated that not all voluntary disclosures positively influence performance, with some disclosures leading to negative outcomes (Mugo, 2014). This study focused specifically on the voluntary financial disclosures among manufacturing firms listed on the Nairobi Securities Exchange (NSE). Thus, the study hypothesized that:

$H0_1$. Financial information disclosure has no significant effect on financial performance of listed manufacturing companies in NSE.

2. Theoretical and Literature Review

The above theory was founded by Jensen as well as Meckling (1976). Moreover, the theory terms agency association as ―a contract upon which either one/more individuals (principals) involve another individual (agent) in order to carry out some service on their behalf which entails assigning authority of decision-making to an agent. Moreover, agents normally correspond effectively to management, whereas principals normally correspond effectively to owners from firms'point of view. Agency result from a belief that two principals, parties as well as agents, have diverse interests. Principals pay monitoring costs, to restrict agents'unusual activities. Further, agents

pay costs of bonding to guarantee that principal‘s interests will not be harmed as a result of their decisions as well as residual loss (Aanu, Oluku & Clementin, 2015). The agency association leads to problem of information asymmetry since shareholders can access information less than the management (Wasara & Ganda, 2019).

One way of mitigating agency problem is optimal contracts as it assists in aligning management interests with shareholders‘interests (Kendi, 2016). Additionally, another way of mitigating agency problem is through voluntary disclosure, where more voluntary information is disclosed by the management hence reducing agency costs (Musyoka, 2017). Another way of mitigating agency problem is through regulations as they require private information to be fully disclosed by the management (Marime, 2017). Nevertheless, even in existence of regulations, full disclosure is however never guaranteed. The conflict that exists between interests of shareholders and management explains nonexistence of full disclosure. Regulations of corporate reporting are aimed at providing information of minimum quantity to investors that assists in the process of decision-making (Mutiva, Ahmed & Ndirangu, 2015).

Wanjau (2019) posits that company‘s‘ directors being agents, have a responsibility to operate the company in a way that maximize returns to all shareholders and the company's cash flow as well as profit. Meckling and Jensen (1976) in agency theory, however suggests that directors do not usually run the firm where they are employed to maximize shareholders' wealth instead they may carry out their own personal-interest. According to the agency theory, an agent has the obligation to full disclosure of information for the principal to benefit. Voluntary disclosure acts as a regulatory tool in order to restrict the tendency on opportunistic behavior for managers‘ personal gain. In line with this study, agency theory was used to determine the effect of voluntary accounting disclosures (financial information disclosure) on financial performance of manufacturing firms listed at NSE. Moreover, the theory terms agency association as a contract under which either one/more individuals (principals) involve another individual (agent) to carry out some service on their behalf which entails assigning some authority of decision-making to an agent. The agency theory implies that companies increase disclosure in order to mitigate conflicts between shareholders and managers. Further, firms wishing to enhance their firm value may do so by increased disclosure.

2.1. Empirical Review

An Manokaran, Ramakrishnan, Hishan and Soehod (2018) performed a research on influence of financial information disclosure on financial performance of Malaysian Insurance Companies. Moreover, the study examined impact of financial information disclosure on financial performance by use of broad content analysis technique on yearly reports from thirteen local insurance companies within Malaysia over past nine years i.e. 2008-2017. The relationship between financial information disclosure and ROA and ROE was tested by use of correlation analysis. Results revealed a positive and significant association between financial information disclosure and Financial Performance.

In South Africa, Wasara and Ganda (2019) examined the association between financial information disclosure and firm financial performance of listed mining companies in JSE. The study sample consisted of 10 listed mining companies in JSE, and data was obtained from sustainability reports for duration of 5 years between 2010 and 2014. Moreover, in regard to this, content analysis method was adopted during data collection. The association between information disclosure and ROI was analyzed using multi-regression analysis. Results indicated a negative association between information disclosure and ROI. Further, the study revealed positive correlation between social disclosure and ROI. This means that by an increase in ROI, an increase in mutual reporting of social disputes leads to increase financial performance.

Anese (2018) examined the relationship between financial information disclosure requirements and performance of selected firms in the listed food and beverage manufacturing companies in Nigeria. This study became necessary so as to determine if listed food and beverage manufacturing companies in Nigeria have been complying with the disclosure requirements and its effect on their financial performance. The findings revealed that the food and beverage manufacturing companies complied with the disclosure requirements up to an extent of 67.02% and that IAS 1, IAS 16, IAS 18 and IAS 23 were all positively related to ROCE. This implies that increase in compliance with disclosure requirements will lead to an increase in performance of the companies. The study concluded that the financial information disclosure requirements especially those of the explanatory variables (IAS 1, 16, 18 and 23) considered in this study have a positive impact in driving the financial performance of companies in the food and beverage manufacturing sector of Nigeria.

Al-Homaidi, Tabash and Ahmad (2020) empirically examined the relationship between the extent of voluntary disclosure level and profitability of Yemeni Islamic banks. This article adopted a self-constructed disclosure index, composed of 266 items, to measure the level of voluntary disclosure information and its association with the profitability of 30 annual reports of Yemeni Islamic banks, over a ten-year reporting period from 2005 up to 2014. The results with respect to profit after tax (PAT), the results indicate that background about the Islamic bank, corporate social disclosure, and bank age has a negative and significant effect with profit after tax.

Monday and Nancy (2016) analyzed the determinants of voluntary disclosure quality among listed firms in emerging economy. Ex-post facto research method was employed as the research design. Data was sourced from 793 corporate annual reports of firms listed in the Nigeria stock exchange between 2000 to 2014.Two models; one based on the combined sample and the other on the non-financial companies only were developed. Generalized Method of Moment (GMM) regression techniques is used to test the statistical significance of the hypotheses of the study. Using the reduced model and full model, the results indicate profitability and gearing were found to be significant and negatively related to the voluntary disclosure quality of listed firms in Nigeria. The implication of these findings is that highly profitable firms in Nigeria tend to disclose less information to avoid political attention in the form of pressure for the exercise of social responsibility and greater regulations such as price control and higher corporate taxes.

Hassan, Giorgioni and Romilly (2016) used panel data analysis to investigate the extent and determinants of disclosure levels of non-financial companies quoted on the Egyptian Stock Exchange. It distinguishes between private sector companies and public business sector companies in terms of company characteristics and disclosure practice. Results show gradual increases in disclosure levels, with a high compliance for mandatory disclosure, although the voluntary disclosure level was rather limited. Public business sector companies appear generally to disclose less information than private sector companies. Furthermore, more profitable companies disclose more information than less profitable ones.

Kendi (2016) examined the correlation between voluntary financial information disclosures and financial performance of various companies which are listed at NSE. The study population for this management research project was the 66 quoted companies in NSE as at July 31, 2016. This research sought to perform empirical analysis of association between voluntary disclosures and financial performance of various companies which are quoted at NSE. Findings indicated that individual predictor variables produced strong positive relationship when regressed against return on investment; similarly, the multiple regression of the predictor variables against ROI produced a strong relationship.

Musyoka (2017) assessed the influence of financial information disclosure on financial performance of various firms quoted at NSE. Correlation research design was deployed to achieve the study objective. The study targeted 64 companies which are currently quoted in NSE. Forty three actively trading companies between 2006- 2015 were selected by use of Purposive sampling. Study results revealed a positive significant association between disclosures on financial policy, sales growth, policy of investment, financial liquidity, research and advancement as well as firm performance. Moreover, these voluntary disclosures explained 63% of the variations in firm performance.

Marime (2017) conducted a study on association between voluntary financial information disclosure and value of registered insurance companies within Kenya. A causal research design was deemed appropriate when intending to determine whether an alteration in independent variable cause adjustment in dependent variable and specific to this study voluntary disclosure (independent variable) and firm value (dependent variable) of the insurance companies listed in NSE. This study targeted all the 47 Kenyan insurance companies as at December 2016. The study concluded that financial information disclosure has a positive and significant effect on firm image and consequently its value. To avoid speculation by investors and other stakeholders, insurance firms need to clearly substantiate where their capital come from and any policy followed and incase of any constraints posed by the capital it need to be well stipulated.

3. Material and methods

The descriptive research methodology was adopted in this study. The population of interest in this study is manufacturing firms listed in NSE, whose number stood at 8 as at 30th Dec, 2021. According to the list obtained from the Nairobi Securities Exchange website, there were a total of 8 listed manufacturing companies (NSE, 2022). This study took the entire population of the eight listed manufacturing firms using census technique. The sample frame for this study were all the 8 listed manufacturing firms at

the NSE. Therefore, since the target population is small, a census method was adopted to select all the 8 manufacturing firms listed at NSE.

3.1. Data Collection Instruments

Secondary data was collected from NSE handbooks. The researcher first obtained an introductory letter from the university which facilitated the acquisition of NSE handbooks. The researcher then contacted NSE and request NSE handbook between 2017 and 2021. The research used secondary data collection sheet as per the conceptualized study variables then use to collect secondary data from audited financial statements of manufacturing firms The data collected was used to compute ratios for individual study variables.. Secondary data for each of the variables was thus collected. The data collection procedure involved getting the financial statements from the NSE and individual firm’s websites. The published accounts of the firms from the period 2017-2021 was used so as to obtain data. The data was then organized and financial ratios computed using Excel program in order to obtain the study variables.

3.2. Measurement of Variables

The disclosure index is a measure of disclosure quality and quantity utilized in prior studies, such as those by Mutawaa and Hewaidy (2010) and Cooke (1998). It assesses the extent of financial disclosure by companies by using a voluntary accounting disclosures checklist. Each company's annual financial reports are reviewed against this checklist to evaluate compliance with necessary disclosures. Items are scored as either applicable and disclosed (1) or applicable but not disclosed (0), allowing for a simple ratio calculation of disclosed items to total items in each category. This un-weighted approach, supported by Marston & Shrives (1996) and Robbins & Auston (1986), suggests that results remain consistent regardless of weighting. The final index value ranges from 0 to 1, with higher values indicating greater compliance with IASB disclosure requirements (Mutawaa & Hewaidy, 2010).). The following equation as developed by Cooke (1998) was used to calculate the disclosure index:

$$DI = \frac{\sum_{i=1}^{m} di}{\sum_{i=1}^{n} di}$$

Where: DI= disclosure index;

di = index item i, 1 if the information (item) is disclosed and 0 if otherwise;

m = number of items actually presented;

n = number of total items required

Table 1: Measurement of Variables

Variable	Name of Variable	Operationalization	Measurement
Dependent variables	Financial Performance	• Liquidity ratios	Profit After Tax/Total Assets
Independent Variables	Financial Information Disclosure	• Liquidity ratios • Summary of financial statements • Statement concerning wealth created • Corporate Social Responsibility Costs	(Actual items disclosed/Total possible items in the Financial information Disclosure)X100

3.3. Data Analysis and Model Specification

Both descriptive and inferential statistics were computed using STATA 15. Descriptive statistics refer to methods of organizing and summarizing data, for this study frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) were used. Inferential statistics refer to methods of drawing conclusions from sample data about a population. For this study, regression and correlation analysis was used to determine both the nature and the strength of the relationship between study variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The regression and correlation analyses were based on the association between two (or more) variables. Data was presented in form of tables and graphs. The study's regression model is as shown below

$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon$

Where;

Y =Financial Performance for firm (i) in period (t), β_0 = the regression constant, β_1, the coefficients of independent variables, X_{1it} = Financial information disclosure for firm (i) in period (t) ε error term of the model (significance level of the model).

4. Findings and Discussion

4.1. Descriptive and Correlation Statistics

The results presented in Table 1 indicate that financial information disclosure among listed manufacturing firms at the Nairobi Securities Exchange (NSE) has a mean of 85.8% and a standard deviation of 16.7%, reflecting a comparatively high level of variability in disclosure practices among these firms. In contrast, financial performance, measured as a mean of 0.072 with a standard deviation of 0.2643, suggests relatively low performance levels, accompanied by significant variability. The Pearson moment correlation analysis yielded a coefficient of r = 0.3616 (P = 0.0219), revealing a significant positive weak effect of financial information disclosure on financial performance; this suggests that increased levels of financial disclosure are associated with modest improvements in performance, a finding consistent with Manokaran et al. (2018), who identified a positive relationship between these variables. However, contrasting results from Wasara and Ganda (2019), who reported a negative association between financial information disclosure and return on investment (ROI) in listed mining companies on the Johannesburg Stock Exchange (JSE), highlight the complexity of this relationship, indicating that industry-specific factors or variations in methodological approach may influence outcomes. The correlation matrix in Table 2 supports these findings, demonstrating a significant positive correlation (r = 0.362**) between financial disclosure and firm performance, with the mean for financial information disclosure reported as 0.575 (standard deviation: 0.501), signifying a moderate level of disclosure.

Table 2: Measurement of Variables

	Mean	Std dev.	Firm performance	Financial information disclosure
firm performance	0.072	0.264	1	
Financial information disclosure	0.575	0.501	0.362**	1

4.2. Fixed Effect Results

Before applying the fixed effects model, the study conducted various diagnostic tests to assess the suitability of the research model. A robust technique known as the Jarque-Bera (JB) test was employed to evaluate the normality of the data, and the null hypothesis was not rejected, as the JB probability value exceeded 5% for the study variables. Additionally, all variables exhibited a Variance Inflation Factor (VIF) of less than 5, indicating that multicollinearity was not a concern, affirming the data's suitability for analysis. The Wooldridge test revealed no first-order serial correlation, with a p-value of 0.3279, allowing the study to retain the null hypothesis, thus confirming that residuals were not correlated over time and were appropriate for panel regression analysis. The Breusch-Pagan test for heteroscedasticity reported a p-value of 0.082, surpassing the 0.05 significance level, enabling the conclusion that the data was free from heteroscedasticity. To investigate the presence of unit roots, the Im,

Pesaran, and Shin (IPS) test was conducted; results indicated a p-value above 0.05, signifying the presence of unit roots. Conversely, the Hausman test produced a prob>chi2 value of 0.0061, which is below the critical p-value of 0.05, leading to the rejection of the null hypothesis that a random effects model would be more suitable, thus justifying the adoption of a fixed effects regression model. The fixed effects model revealed that financial information disclosure accounted for 13.07% of the variation in the financial performance of manufacturing firms listed at the NSE, as indicated by an overall R^2 of 0.1307. The ANOVA statistics, represented by an F-statistic of 4.59, confirmed the general significance of the model, suggesting that the estimated parameters were not equal to zero, indicating a noteworthy impact of forward-looking information disclosure on financial performance. The estimated coefficient for financial information disclosure was $\beta = 0.09233$ ($t = 2.14$, p-value = 0.040), with the p-value below 0.05 demonstrating significance at the 5% level. This coefficient suggests that a one-unit increase in financial information disclosure correlates with a 0.092-unit increase in financial performance. The constant term's p-value also fell below 0.05, affirming its significance. Consequently, the study rejected the null hypothesis positing that financial information disclosure does not influence financial performance, asserting instead that increased financial information disclosure correlates with enhanced financial performance among manufacturing firms at the NSE. Supporting this conclusion are findings from Anese (2018), which identified positive impacts of financial information disclosure requirements on financial performance in Nigeria's food and beverage sector, as well as Musyoka (2017), who linked disclosures related to financial policy and other factors to significant firm performance variations. Additionally, Marime (2017) established a positive effect of financial information disclosure on the image and value of registered insurance companies in Kenya. However, contrary results from Wasara and Ganda (2019) highlighted a negative association between financial information disclosure and ROI in the mining sector, underscoring the need for caution in generalizing these findings across different industries. Taken together, the results underscore the relevance of stakeholder theory, which emphasizes the importance of financial information disclosure as a means of accountability to stakeholders and a mechanism for enhancing investor confidence, thus illustrating how organizations can effectively engage with their stakeholders through transparent financial reporting.

Table 3: Regression Fixed Effect of Financial Information Disclosure

Fixed-effects (within) regression				Number of obs =		40
Group variable: FIRMID				Number of groups =		8
R-sq:				Obs per group:		
within =	0.0785			min =		5
between =	0.1612			avg =		5
overall =	0.1307			max =		5
				F (1,31) =		4.59
corr(u_i, Xb) = 0.0904				Prob > chi2 =		0.0401
FP	**Coef.**	**Std. Err.**	**T**	**P>t**	**[95% Interval]**	**Conf.**
FID	0.09233	0.043086	2.14	0.040	0.004455	0.18020
_cons	3.40901	0.482026	-7.07	0.000	-4.39211	-2.42591
Diagnostic statistics						
Normality test						
Jargue-Bera	. 3.269					
Chi (2)	. 195					
Breuch-Pagan Test for Heteroscedasticity						
Stat Value	78.95					
P-Value						
Multicollinearity Test						
Mean VIF	1.100					
Auto Correlation Test						
Wooldridge test F (1, 7)		1.106				
Prob > F =		0.3279				
Unit Root Test						
Im, Pesaran and Shin (IPS)		6.337*				
P value		0.0110				
Hausman Test						
chi2(4)		14.713				
Prob>chi2		0.0061				

5. Conclusion and Recommendations

Based on the empirical evidence, a number of logical conclusions can be made as follows and presented in terms of study objectives: In line with the objective of the study , effect of financial information disclosure on financial performance of manufacturing firms listed at Nairobi Securities Exchange, Kenya the study concluded that financial information disclosure has significant positive effect on financial performance. An increase in financial information disclosure would result to significant increase in financial performance. Therefore, the study concluded that listed manufacturing firms are able to increase their financial performance when they increase their financial information disclosure on liquidity ratios, summary of financial statements and statement concerning wealth created. The first null hypothesis was rejected. The study recommends that listed manufacturing firms should adhere to provisions stipulated by International financial reporting standards and ensure that all relevant financial information is appropriately disclosed to stakeholders. This study thus recommends that the management should improve the disclosure of financial information such as return on assets, return on shareholders' funds, liquidity ratios, bank loans and historical summary of financial data among others. In addition, there is need to increase the level of voluntary disclosure in regard to financial information so as to foster positive firm performance. These can be achieved by examining the various indicators of financial liquidly and making the information more clearly to the common investor with no financial knowledge.

6. Further Research

From the limitations of the study, the following are suggestions for further studies. The study focused on financial information disclosure. Further studies can focus on other types of disclosures such as strategic and corporate information and capital markets disclosures on financial performance. The current study did not control or moderate other variables that may have impact on the relationship between voluntary disclosures and financial performances. Therefore, future studies should consider firm size, corporate governance as moderating variable and macro-economic indicators such as interest rate, foreign exchange and taxation as control variables which may have impact on financial performance and voluntary disclosure.

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