

INFLUENCE OF PROFITABILITY ON FINANCIAL INSTRUMENTS DISCLOSURE QUALITY AMONG LISTED FIRMS IN KENYA

Abstract.

The objective of this study was to investigate the influence of profitability on financial instruments disclosure quality among listed firms on the Nairobi Securities Exchange. The target population for this research comprised of companies listed at the Nairobi Securities Exchange over the period 2012 to 2018. The study examined a sample of fifty nine listed firms. Empirical study developed an un-weighted disclosure index consisting of forty six disclosure items and the scores were used to measure financial instruments disclosure quality. Data were mainly collected from firms' annual reports. The collected secondary data was analyzed using Stata software where descriptive and inferential statistics were generated. Correlation and panel multiple regression analysis was employed to test the hypothesis and determine association between the independent variable and the dependent variable. The study findings revealed that profitability is significantly and positively associated with financial instrument disclosure quality. Firms should provide high quality financial instrument disclosures to the various stakeholders in order to restore investor confidence minimize information asymmetry and enable informed investment decision making. These can be achieved by strict adherence to disclosure guidelines that financial and accounting regulators have formulated. Additionally, regulators should conduct periodic checks and audits to ensure companies comply with the set policies and the regulatory framework. Further research was encouraged to establish whether the determinants of disclosure would be the same if a weighted disclosure index was used to determine disclosure quality in the Kenyan context.

Authors:

PATRICK OJWANG WANDERAH, MANIAGI MUSIEGA.