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Effect of Disclosures on Financial Performance of Commercial Banks

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Abstract: Disclosure is the process of providing public access to the required piece of information. It forms an integral part of corporate governance practices which has a significant positive influence the financial performance of commercial banks. This study therefore investigated the effect of disclosures, (financial disclosures, liquidity disclosures, social disclosures and risk disclosures), on financial performance of commercial banks listed at the Nairobi Securities Exchange in Kenya. A descriptive survey research design was employed and a population of ten commercial banks listed in the Nairobi Securities Exchange was investigated. A purposive sampling design was applied with 4 senior bank officials in each bank selected to provide the in-depth pieces of information that were required for this research study, this gave a total of 40 respondents questioned. The primary data was collected using questionnaire with each question addressing the specific objectives of the study. The collected data was analyzed using regression analysis which proved the existence of significant positive influence of disclosures on financial performance of the commercial banks. The financial performance was measured in terms of Return on Assets. It is imperative that the disclosures of information positively affect the financial performance of commercial banks (Kisembe, 2018).

I. Introduction;

Financial performance of commercial Banks is very fundamental for the going concern of the banking institutions and industry. Key factors and determinants that affect the financial performance and financial health are of great concern and ought to be considered with the seriousness they deserve (Ongore & Kusa, 2013). Disclosures, being one of those factors, forms the main pillars supporting the improved financial performance of the commercial banks. A comprehensive disclosure of financial information is critical for businesses and is an international requirement as per IFRS21.In Kenya most commercial banks have developed disclosure policies even though the actual information disclosure has proved to be challenging in most commercial banks depending on the nature of dissemination thereby bringing the negative effect and losses(Bischof et al.,2021) This study aimed at investigating the effect of disclosures on financial performances of commercial Banks listed at Nairobi Securities Exchange.

II. Literature Review

Theoretical Review

Agency Theory

This is the theory that examines how a principal and an agent relate to each other in an organization and how to best structure the contract between them. It is used to address conflicts that may come up as a result of the principal and agent having different goals and risk preferences. Berle and Means (1932), initially came up with this theory which was then reviewed by Jensen and Mackling (1976) and again cited by Onaolapo, Kajola and Nwidobie (2015) thereby showing the fundamental agency problems inherent in the modern organizations. The modern organizations involve the owners of the company that provide the required funds and resources for the running of the organization but the actual daily management of the business transactions are carried out by the professionals who are hired to act as agents on behalf of the owners who are the principals. The managers hired cannot ultimately be held responsible by the dispersed shareholders in matters relating to the finality of the business, this separation of ownership and control is therefore the main cause of the agency problems.

Concentrating authority into the hands of a few managers can lead to other costs such as errors or expropriation of firm assets by the controlling managers. It may also lead to the expropriation of minority shareholders (Ogabo et al.2021). Separation of ownership and control requires good governance and involves various mechanisms within the institution and in the marketplace to ensure good governance and reduce agency problems (Dockery et al.2012; Farooq et al.2022).

Stakeholder Theory

Stakeholders can be defined as the interested parties in the organization. Examples of stakeholders are the shareholders, customers, employees, managers, suppliers and the government. The stake holder theory tends to come up with the situation of striking a balance between all the concerned parties in the organization. It is also a theory that deals with the business ethics and the management of the organization (Schaltergger *et al.,* 2019).Initial discussions about stakeholders theory emphasized on the shareholders as the main stakeholders, however, further studies has proved that argument to be narrow and show that the theory encompasses all the interested parties (Coleman, 2008). For instance, it was proposed by scholars that companies are not in any way the only instrument of shareholders alone but it is found within society and should bear the responsibilities to the society, (McDonald & Puxty, 1979). Trust is one of the most important components in the stakeholder theory. Without trust, this theory cannot be practical. Crane (2020), provides a meaningful extension to this literature by discussing how the actions of a firm toward one or a small group of stakeholders can influence the extent to which other stakeholders are willing to make themselves vulnerable to the firm and engage in future exchange relationships.

III. Impirical Review

Several studies have been done and most findings showed a direct positive effect of disclosures on the financial performances of companies. For instance, according to Kisembe (2018), there are positive influences of liquidity, capital and dividend disclosures on financial performance of commercial banks listed in NSE in Kenya. The research study done by BM Wanjau, (2019), also proved the existence of the significant positive relationship between disclosures and financial performance on companies listed in Securities Exchange in East Africa. Risk, financial, governance and social disclosures were the main independent variables in the researcher's study among the selected East African Companies listed.

IV. Methodology

A descriptive survey research design was used on this research study. The choice of the design was informed with the fact that it enables the researcher to use both quantitative and qualitative data in the subject matter and hence most appropriate**.** It also allowed collection of data from a large pool by the researcher and hence be able to compare and relate the variables faster and more accurately. According to Willie (2023), a population can be defined as a total set of individuals from which a sample is drawn to make inferences or generalizations .A target population is however a particular segment of a larger group or population that forms the major focus on the study. The population of 10 Commercial banks which are listed in NSE formed the main target group in this study. A purposive sampling was more valuable and hence employed in this study.

Data was collected using the structured questionnaire which included the four independent variables (disclosures) and the financial performance as a dependent variable. Descriptive statistics such as mean and standard deviations were used to analyze the data, while regression analysis was conducted to determine the effect of disclosures on the financial performance of commercial banks listed in Nairobi Securities Exchange in Kenya.

IV. Analysis and Results

Descriptive statistics show that most respondents were in agreement with the questions relating to disclosures and financial performance as represented in Table 1

Descriptive Statistics on disclosures and financial performance of Commercial banks

Table 1 Descriptive results of Disclosure

	SD	D	U	A	SA	Mean	Standard deviation
The bank publishes financial disclosure	22.5	15	0	25	37.5	3.4	0.965
The bank reports liquidity disclosure	2.5	5	12.5	37.5	42.5	4.13	0.992
The social disclosures are reported by the bank	0	5	15	42.5	37.5	4.13	0.853
The bank publishes risk disclosures	0	0	12.5	52.5	35	4.22	0.667
Overall	0	0	32.5	42.5	25	3.97	0.687

Scale; <1.5= strongly disagree, 1.5-2.5=disagree, 2.5-3.5=uncertain, 3.5-4.5=agree and >4.5=strongly agree
Results from Table 1 shows that the mean response per question ranges between 3.4 and 4.22. This implies that most of the respondents were in agreement with all the items under Disclosure. The standard deviations were all less than 1 which implies that the responses were close to one another thus ruling out the possibility of having extreme opinion on the data. The overall disclosure had mean of 3.97 with a standard deviation of 0.687 signifying that the banks have embraced the disclosures of their financial information which in turn contributes to their positive financial performance .The studies made by BBM Wanjau (2019), on the disclosures and financial performance also found a positive influence of disclosures on the financial performance of banks which therefore is in agreement with the current researcher's findings as per this descriptive statistics.

Table 2 Descriptive results of Banks Financial Performance

	SD	D	U	A	SA	Mean	Standard deviation
Bank has good improvement on ROA in the last 3 years	0	2.5	10	40	47.5	4.33	0.764
The bank has better ROA than that of the industry	3	12.5	32.5	27.5	22.5	3.5	0.932
The bank has a strong statement of financial Position	7.5	5	7.5	50	30	3.9	0.928
The bank is liquid	2.5	0	20	47.5	30	4.03	0.862
Overall	0	2.5	12.5	77.5	7.5	3.93	0.533

Scale; <1.5= strongly disagree, 1.5-2.5=disagree, 2.5-3.5=uncertain, 3.5-4.5=agree and >4.5=strongly agree
Results from Table 2 shows that the mean response per question ranges between 3.5 and 4.33 meaning that on average, most people agreed with all the items under Banks financial Performance. The standard deviations were all less than 1 which implies that the responses were close to one another. These statistics of the banks' financial performance paints a picture of a good and remarkable improvements in the past three years especially recovering from the effect of the covid 19 of the year 2020.For instance the banks have had good improvements on their ROA in the past 3 years has a mean of 4.33 and standard deviation of 0.764.Continuous improvement on ROA is a good indicator of the banks' good performances and a promising going concern. Zainuddin, Wancik, Hartati, & Rahman (2017), carried out a study on ROA as an indicator of the financial performance. The findings showed a positive correlation between ROA and the financial performance just as shown in the descriptive statistics.
Liquidity position of any bank is also key in its operations and continuity. The average liquidity in the research was 4.03 and a standard deviation of 0.862, a good indicator of a well-placed liquidity position of the banks despite coming out of the covid 19 period. The overall banks' financial performances had a mean of 3.93 with a standard deviation of 0.533 which shows a positive trend and improvement in the industry.

Regression Analysis on disclosures and Financial Performance of commercial banks

Table 3 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.984	.566		3.503	.001
	Financial disclosure	.210	.097	.275	2.165	.037
	Liquidity Disclosure	.309	.106	.370	2.925	.006
	Social Disclosure	.327	.095	.421	3.453	.001
	Risk Disclosure	.399	.102	.480	3.931	.000

a. Dependent Variable: financial performance

VI. Discussions

Table 3 shows that Financial disclosure had a regression coefficient of 0.21 with a p value of 0.037; liquidity disclosure had a regression coefficient of 0.309 with a p value of 0.006, social disclosure had a regression coefficient of 0.327 with a p value of 0.001 while risk disclosure had a regression coefficient of 0.399 with a P value of 0.000. Therefore, all the independent variables had positive significant influence on financial performance. The resultant model is thus given by equation 3.1 as

$$Y = 1.984 + 0.21X_1 + 0.309X_2 + 0.327X_3 + 0.399X_4$$

Equation 3.1 shows that for every unit change in financial disclosure, financial performance increases by 21% keeping other factors constant; for every unit change in liquidity disclosure, financial performance increases by 30.9% keeping other factors constant; and; for every unit change in social disclosure, financial performance increases by 32.7% keeping other factors constant; and for every unit change in risk disclosure, financial performance increases by 39.9% keeping other factors constant.

Recommendations

1. Banking institutions should embrace disclosures as one of the major corporate governance practices in running their institutions.

2. Formulation of policies: - The study can be very vital for the bodies formulating policies in the banking industry like Central Bank of Kenya

3. The Government can use the research findings in governing and controlling the banking industries.

4. The academic sphere will find the findings very vital and they should use it to add more insight into the study and also into the academic research pool.

Conclusion

The conclusion of the study emphasizes on the importance of disclosures on the financial performance of the commercial banks. Timely and accurate disclosures of the information is key and has significant importance on the financial performances of the commercial banks.

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