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DISCRETIONARY ACCOUNTING CHOICES, CORPORATE VOLUNTARY DISCLOSURE AND FINANCIAL REPORTING QUALITY IN COMMERCIAL STATE CORPORATIONS IN KENYA

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Abstract

This study examines four hypothesized variables used to assess the extent of corporate voluntary disclosure, general and strategic information, financial data, forward looking information and social and board disclosure. The study used longitudinal research design to achieve the sought objectives. The study used secondary data for a period of ten years to build a pooled data on corporate voluntary disclosure, timeliness quality and qualitative characteristics. The results reveal that corporate voluntary disclosure are statistically significant and positively associated with fundamental qualitative characteristics of accounting information at 5% level of significant. This indicates that corporate voluntary disclosure in commercial state corporation in Kenya influences the level of financial reporting quality. Therefore it is recommended that stakeholders in commercial state corporations should ensure that corporate voluntary disclosure is improved to decrease manipulations of accounting information in order to increase the quality of reporting.

Keywords: Discretionary accountings, voluntary disclosure, quality reporting, timeliness, commercial State Corporation

INTRODUCTION

The study examines the impact of voluntary disclosure on financial reporting quality give that the primary objective of financial reporting is to provide high quality financial information concerning the economic activities of an entity. However, Barako et al. (2007) had a different view, that the

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extent of voluntary disclosure is influenced by a firm's corporate governance attributes, ownership structure, presence of audit committee, and company characteristics. Financial reports play the main medium of the information discrete to outside user. We do recognize that firms gain substantially from building reputation for transparent reporting, as it eventually results in higher management credibility and increased liquidity and a lower cost of capital. To enhance competitiveness, firms view disclosure as an opportunity rather than a burden. FASB (2008 p.13) states that, 'the objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors, lenders and other creditors in making decisions in their capacity as capital providers. Meyer (2007 p.2) finds that 'accounting plays significant role within the concept of generating and communicating wealth of companies.' And thus "Accurate reporting of actual earnings outcomes exerts an accountability discipline on managers' and analysts' more-timely expectational statements, such as growth prospects and earnings forecasts." (Ball and Shivakumar, 2008).

Biddle and Hillary (2006) and Lambert et al. (2007) suggest that financial reporting quality is determined from a number of perspectives namely; earning persistence, timeliness, disclosure quality, audit fee charged, compliance with international financial reporting standards and earning management These measures of FRQ only focus on attributes believed to influence quality of financial information, hence indirectly measure the level of FRQ. If we go by literature on measures of financial reporting quality, we then try to provide evidence that some models are not comprehensive measures of reporting quality. Vantendeloo &Vansstrealen (2005) argue that accrual models only use financial information; hence exclude non-financial information from annual reports of firms.

IASB (2010 paragraph QC4) states that, 'if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of the financial information is enhanced if it is comparable, verifiable and understandable.' The previous studies have not provided the best measure (s) for FRQ despite a number of studies on this area, making it impossible to comprehensively assess the quality of financial statements. However, quality information means that information meets the requirements and specifications given to it, or exceeds the expectations of users (IASB 2008). Thus FRQ depends on measurement used and objectives of financial reporting. The aforementioned studies confirm that financial statements still remain the most important source of externally feasible information on companies. Nevertheless, in the wave of recent scandals and loss of billions of shillings of investments in state corporations in Kenya, the very integrity and representation of value relevance, timeliness in reporting and disclosure quality has been called to question.

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We built our argument around the theory of information asymmetry between managers and external users that allow managers to use their discretion in preparing accounting information which further influence the quality of financial reporting and thereafter raise question as to whether discretionary accounting choices have influence on FRQ. Biddle and Hillary (2006) and Lambert et al. (2007) suggest that financial reporting quality would be determined from a number of perspectives namely; earning persistence, timeliness, disclosure quality, and audit fee charged, compliance with international financial reporting standards and earning management.

The commercial state corporations (CSCs) are distinguished from the rest of the government owned enterprises as they are formed for commercial purposes. It is therefore expected that their quality reporting should be like those of the listed companies in Kenya. This is on the pretext that financial reporting practices are perceived to have improved significantly after ICPAK's decision to implement IFRSs. Since then, the quality of reporting in Kenyan companies has generated discussions from various stakeholders (Barako 2007). According to the World Bank Report 2001 in Kenya on observance of standards and codes (ROSC, 2001) reveals gaps between applicable standards and accounting practices in many companies. The study by Center for Governance and Development (CGD 2005) in Kenya on audited accounts of state corporations reveals in-accuracy on most accounts of state corporations. IFAC (2005) confirmed that requirements for adopting International Financial Reporting Standards (IFRSs) have been legalized in Kenya for enterprises of all types. This therefore confirms that the IFRSs are in use and applicable in commercial state corporations in Kenya to enhance quality reporting.

Financial reports play the main medium of the information discrete to outside user. FASB (2008 p.13) states that, 'the objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors, lenders and other creditors in making decisions in their capacity as capital providers. Meyer (2007 p.2)'finds that accounting plays significant role within the concept of generating and communicating wealth of companies.' Thus FRQ depends on measurement used and objectives of financial reporting. The aforementioned studies confirm that financial statements still remain the most important source of externally feasible information on companies. Nevertheless, in the wave of recent scandals and loss of billions of shillings of investments in state corporations in Kenya, the very integrity and representation of value relevance, timeliness in reporting and disclosure quality has been called to question.

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Corporate voluntary disclosure is the excess of requirements which represent free choices on that part of the managers to provide information to the users of annual reports (Yuen et al. 2009). Many companies disclose the information to satisfy the users' needs, where mandatory (disclosure quality) seem to be inadequately supplied. Singhui and Desai (1971) argued that corporate quality disclosure in annual reports considerably influence the extent of financial reporting quality. Corporate voluntary disclosure is not a basic requirements by law or requirements but free choice made by top management to enhance FRQ in their entities.

Barako et al. (2006) define corporate voluntary disclosure as the financial and non financial information through which annual reports over and above the mandatory requirements, with regard to the Kenyan company laws, professional accounting standards or any other relevant regulatory requirements. The research adopt Barako et al. 2006 as the working definition for corporate voluntary disclosure. Therefore with CVD managers can influence the expected interpretation of financial reporting components of the trade off, which can hereby affect the activity choice. The activity choice is influence by the manager specific characteristics. The origin of state commercial corporations in Kenya according to sessional paper of 1965 can be traced back to 1963 when Kenya attained political independence. The establishment of the state commercial enterprises in Kenya was driven by a number of objectives such as; desire to accelerate economic, social development, redress economic imbalances and promote foreign investments.

In Kenya, Government Owned Enterprises (GOEs) are established to play several roles namely; accelerate economic growth and development; improve delivery of public services, create of employment and build international partnership. The available data on GOEs shows that the output of state corporations to GDP in nominal terms has been increasing from 9.54% in 2009/2010 to 11.64% in 2010/ 2011 based on internally generated income. As a way of improving the financial management and reporting quality, PTPR, 2013 have reclassified Kenyan state corporations into five distinct classes; commercial state corporations, commercial state corporations with strategic roles; executive agencies, independent regulatory agencies and research institutions, public universities, tertiary education and training institutions.

The motivation to research on corporate voluntary disclosure and financial reporting quality is that There is currently no empirical evidence avail-able on voluntary disclosure benefits investors, companies and the economy; it helps investors make better capital allocation decisions, lowers firms' cost of capital, and also reduce conflicts of interest in widely held firms. Financial reporting quality on the other hand does not only means earnings or stock price changes, but a multi-dimentional term that requires comprehensive measure (IASB, 2008). Most of the empirical studies do not show that discretionary accounting choices and

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voluntary disclosures have impact on FRQ (Bamber et al. 2010 ; Ge et al. 2011). Top management use flexibility within the accounting standards to choose accounting methods, policies and estimates in financial reporting process which influence positively or negatively the firm 's financial reporting quality. But from the public domain FRQ in commercial state corporations in Kenya remains questionable as compared to other listed companies. Hence the motivation to determine the influence of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.

THEORETICAL FOUNDATION

Signalling theory has been used in many studies to provide more information to stakeholders. Although the signalling theory was originally developed to clarify the information asymmetry in the labour market (Spence, 1973), many researchers in both finance and accounting have preferred to use it in explaining voluntary disclosure in corporate reporting (Ross, 1977). As a result of the information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favourable reputation (Verrocchio, 1983). Voluntary disclosure is one of the signalling means, where companies would disclose more information than the mandatory ones required by laws and regulations in order to signal that they are better (Campbell et al., 2001). Signaling theory provides a pointer to why many managers would engage in corporate voluntary disclosure. This indicates that asymmetry information between a company and the stakeholder causing adverse selection. Gibbins et al. (1992) indicate that disclosure is a managed activity which can be explained by context in which it occurs. Nalikka (2009) examined impact of gender diversity on voluntary disclosure in annual reports.

Companies seek to attract external finance to increase their capital adequacy and sound financial sustainability, either by debt or equity. The capital need theory advocates that corporate voluntary disclosure helps in achieving a company's need to raise capital at a low cost (Choi, 1973). In 2001, according to the Improved Business Reporting: Insights into Enhancing Voluntary Disclosure, which is published by the Financial Accounting Standards Board as part of their broader Business Reporting Research Project, the competition for capital leads to increased voluntary disclosure. The relationship between voluntary disclosure and cost of capital has been thought to be a positive relationship; the higher the information disclosures, the lower the cost of capital. However, in the current study we opt to look at it in terms of financial reporting quality.

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The discretionary-based disclosure theory provides the conceptual and theoretical framework which can be used to examine the incentives that motivate corporate voluntary disclosure (Verrecchia, 2001). This theory evaluates under which circumstances companies choose to disclose or not disclose certain kinds of information in their financial statements. Corporate disclosure in annual reports is a key financial accounting research area. Perera (1994 p.268) describes disclosure as 'an accounting involving human and non-human resource or techniques as well as interaction of two. Palepu (2001) discusses three proxies for measuring voluntary disclosure; management forecast, disclosure index self-constructed measures, which are grounded on the theory of voluntary disclosure and supported by other theories, namely; agency theory, signaling theory and political process theory. The argument is significant in establishing the interactive effect of CVD among other study variables in the current study.

Agency theory claims that conflicts are expected to arise when there is incomplete and asymmetric information. Giner (1997) notes that managers will disclose more information or detailed information associated with agency problem. Determinants of disclosure are size, leverage, profitability and listing status. Agency problem is caused by top management characteristics. Garcia –Meca- et al., (2005) argues that disclosure serves to control agency cost. Lundholm and Vanwilkle (2006) note that company's disclosure more when information is positive and less when there is friction such as information asymmetry and propriety costs. The most interesting part of the effect is on how the TMT personal characteristics would influence this disclosure in CSCs.

EMPIRICAL LITERATURE REVIEW

Our objective is to advance our understanding of the interactive relation between corporate voluntary disclosure and financial reporting quality and other theoretical foundations around the concepts. Healey (1985) attempts to explain and predict managers choice of accounting theory based on firms compensation plans. His hypothesis was that managers would find opportunities in which they would manage net income in an attempt to maximize their bonus if income tends to be between the bogey and the cap. Under these two conditions then managers would find an incentive to acquire accounting policies that increase net income, and thus increase a managers bonus. This kind of scenario is purely lacking in companies that do not base their compensations plan on income. Top management team in commercial state corporations are on fixed salaries by the public commission as for the case of Kenya. Watts and Zimmerman (1990 p.38) 'argue that managers of firms with bonus plans are more likely to use accounting methods that increases or maximises current period reported income.

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Most of accounting literature point out that financial reporting quality is essentially meant to reduce information asymmetry between corporate managers and parties contracting with the firms (Watts and Zimmerman, 1986; Frankel and Li 2004). Deegan and Unerman (2006 p.215) argue that, organizations will always try to put in place mechanisms that have to align the interests of the agents and principals, due to the opportunistic behaviour of individuals. But these mechanisms may not be effective in controlling earnings management by managers, timeliness in reporting, corporate voluntary disclosure and discretionary accounting choices. Most of the CSCs in Kenya are perceived to have inadequate financial information (CGD 2005). This forms the basis to build on this theory in order to reduce information asymmetry, leading to compromised quality information. We also advanced another theoretical underpinning of corporate voluntary disclosure. The discretionary-based disclosure theory provides the conceptual and theoretical framework which can be used to examine the incentives that motivate corporate voluntary disclosure (Verrecchia, 2001). This theory evaluates under which circumstances companies choose to disclose or not disclose certain kinds of information in their financial statements.

We therefore noted that with the theories advanced above, corporate voluntary disclosure in annual reports is a key financial accounting research area. Perera (1994 p.268) describes disclosure as 'an accounting involving human and non-human resource or techniques as well as interaction of two. Botasana (2004) suggests that quantifying qualitative characteristics underlying disclosure is extra ordinarily difficult and that it would be virtually impossible to employ procedures in an empirical setting. Palepu (2001) discusses three proxies for measuring voluntary disclosure; management forecast, disclosure index self-constructed measures, which are grounded on the theory of voluntary disclosure and supported by other theories, namely; agency theory, signaling theory and political process theory. The argument is significant in establishing the interactive effect of CVD among other study variables in the current study. Since regulations and laws do not usually meet the need of information by investors through mandatory disclosure (Graham et al., 2005), because in most cases laws and regulations provide investors with the minimum quantity of information that helps in the decision-making process (Al-Razeen & Karbhari, 2004), the need for voluntary information disclosure arises. Accordingly, voluntary disclosure is perceived as filling the gaps missed by mandatory disclosure (Graham et al., 2005).

Ling (2012) shows that individual managers play significant role in explaining how accounting accruals is influenced by accounting choices over time. But Dechow and Schrand (2004) suggest that top managers are able to exercise discretion over reported earnings along various dimensions (aggressive, conservative and smoothing reporting). Each of these

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dimensions has intervening effect on financial reporting quality and demographic diversity of TMT since there seem to be indirect relationship. However, audit committee serve as a bridge in the communication network between internal and external auditors and the board of directors. Audit committee help to check the activities of the auditors (both internal and external) and top management resulting to the bridging of the gap among users of financial statements (Enofe et al 2013).

Hribar and Yang (2010), suggest that individual managers have great potential to enhance understanding of how managers consequently make financial reporting choices. The prior studies (Ling 2012; Helson 1998) have used discretionary accounting choices as independent variable on FRQ, while Hribar and Yang (2010) have used demographic diversity of TMT as independent variable on discretionary accounting choices. Hitt et al., (2001); Cohen et al. (2004); Bamber et al., (2010) and Francois and Kyle (2011) have used demographic diversity of TMTs as independent variable on proxies of FRQ. In choosing activities, managers must often trade often tradeoff between what to disclose and the expected value to be reported. Thomas (1988) finds that incentives for transparency or opacity in reporting can influence the selection of accounting policies. Therefore corporate voluntary disclosure plays the role of tradeoff between the manager's incentives and the desired firm outcomes. Thus with corporate disclosure managers can influence the expected interpretation of financial reporting components.

Since none of these studies has tested the causal linkages of the three variables, this leads to the preposition that: The relationship between demographic diversity of top executives and financial reporting quality is not mediated by discretionary accounting choices.

Accounting and Financial reporting requirements of Kenyan commercial state corporations are regulated by a multiplicity of laws and regulatory bodies. These include the companies Act cap 486, Nairobi Securities Exchange Act, central Bank of Kenya Act, the capital markets authority Act and state corporations Act. The Kenyan Companies Act sets the general framework for financial accounting and reporting by all registered companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. Barako (2007). The regulatory framework governing reporting in Kenya comprise statutory framework governing the accountancy profession and financial reporting in Kenya. This precisely includes the companies Act (CAP 486), industry specific legislations governing financial reporting (CDG 2006).

Financial reporting practices are perceived to have improved significantly in Kenya since ICPAK's decision to implement international standards in accounting and auditing. Therefore corporate financial reporting becomes an important avenue for communicating company's

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financial and non-financial information. Commercial state corporations have not been doing well in terms of financial reporting. Kariuki and Jagango (2013) argue that quality financial information should be reflected in the security prices, but this should only be applicable to the listed companies. Wagacha (2001) notes that predominant reason for listing is to access cheaper funds from the financial markets. Zairi and Letza (1994) make different assertion on why companies should practice financial quality reporting. The intention of financial reporting quality is to show what is actually happening to an entity, expressing the silent facts as far as practicable in financial terms. The major focus of the study is to examine the FRQ in the commercial state corporations which are generally not listed. But it is reported that by 1996, the Kenyan had started selling state owned enterprises (African Financial Review, 1996). The major question is how was the financial reporting quality of these state owned enterprises determined?

Outa (2011) found out that the level of FRQ in listed companies was generally low using both quality disclosure and compliance with IFRSs, but showed an improvement over the study period. The studies used longitudinal research design.

Mutiso and Kamau (2013) examined how disclosure, adaptation of IFRSs, regulations and lack of competence by preparers contribute to the complexity of preparing financial statements. The study adopted descriptive study design focusing on the registered banks. The major findings revealed a number of variables contributing to complexity in preparation of statements of firms. Management interference was a major contribution to complexity in financial reporting. However, the study failed to explore on which management characteristics contributes to the interference with quality of financial reporting.

The reviewed local studies reveal that most studies basically rely on IFRSs in explaining the level of FRQ in listed companies but are quite silent about commercial state corporations. A survey conducted in Kenya by (ROSC 2010) attributes the low FRQ to reluctance of top management to comply with the full disclosure and transparency requirements of IFRSs. However, the report noted that non- listed entities including commercial state corporations have significant public interests, but no study has been done. It is on this account that the current study intends to address other proxies of FRQ and determinants such as demographic diversity of top executives and discretionary accounting. However, Miringu and Muoria (2010) conducted a study in CSCs examining how corporate governance affects performance in CSCs. The study used descriptive survey with a study population of 41 CSCs. The findings revealed a positive relationship between ROE and board size and board composition of all CSCs. The current study will build on this study to examine the effect of demographic diversity of TMT on FRQ in all commercial state corporations.

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RESEARCH METHODOLOGY

The study adopted both correlational research design and longitudinal research design. Correlational research design suits this kind of study since it attempts to establish the existence of relationships among variables. It is used to describe the statistical association between two or more variables and ensures that all cross sectional variations are included in the model. The design helps in determining the extent to which the variables of the study are related. However, it does not 'prove' a relationship; it only indicates an association between the variables (Creswell, 2008 and Ludica et al, 2006). The weakness of correlational design can be strengthened by the use of longitudinal study design. The longitudinal research design has strong controls for the firm specific effects to avoid misattributing firm effects to TMT (Bertrand and Schoar 2003). The longitudinal research design helps to detect the changes in the characteristics of target population at both group and the individual level. The longitudinal research design fits in this study in tracking changes in demographic diversity of TMTs over time and relates them to other variables in the study. The design is quite useful in describing patterns of changes in the study variables, hence makes it possible in establishing the direction and magnitude of causal relationships. It allows researcher to differentiate between change over time in aggregate data and in individual (Rutter, 1988). This study is based on eleven variables measured over time. Longitudinal research design allow measurement to be taken on each variable over two or more distinct time periods before drawing conclusion on their joint effect. The variables comprise seven independent and four dependent variables.

The target population of this study comprised all the commercial state corporations in Kenya. There were a total of fifty five (55) commercial state corporations in Kenya as presented by Inspectorate of state corporation 2014 report. The population was purely drawn from commercial state corporations in Kenya, which were categorized as; commercial state corporations or commercial state corporations with strategic functions. All the 55 commercial state corporations were included in the study, hence a census study.

Due to the scope of the study and the nature of data collected, some commercial state corporations were excluded from the study due to lack of sufficient or incomplete data, after filtering the population a total of 30 commercial state corporations with complete data were selected. The study sampled firms' yield firm year observations of 248 individual TMTs and 241 annual financial statements. The firm year observation was use as the sample size for the study. The commercial state corporations were preferred for the study as they have well defined financial reporting framework and defined procedures for appointment of top management.

The study used pooled data mainly drawn from secondary sources. The data was extracted from audited financial statements and management reports (MD&A) specifically

chairman's report, Managing director's report and auditor's general reports obtained from the individual state commercial corporations and the relevant parent ministries using secondary data capture form for the period 2004 to 2013. The data collected were used to provide information on corporate voluntary disclosure, discretionary accounting choices, financial reporting disclosure, and items of financial statements and timeliness of the reports. Pooled data was also developed to capture the demographic characteristics of TMTs from commercial state corporations. The information sought was obtained as shown in Table 1 below. The study used panel data where each CSCs (or CEO, CFO, internal auditor, audit committee members) year in the study sample become an observation. This enabled the researcher to utilize the study sample from each firm with at least five observations.

Table 1: Operationalization of Variables

Types Of Variables	**Proxy For Variables**	**Measurement Descriptions**	**Source Of Data**
Discretionary Accounting choices	Accounting Methods /Accounting Policies (AP)	This variables is measured under five accounting Policies and methods namely, revenue recognition, inventory valuation, depreciation methods, reserves, allowance and bad debts and contigent liabilities. The items are measured using dummy variables/ dichotomous variables/ under the two Policies - aggressive or conservative Policies.	Financial statements from each SOCME
	Voluntary disclosures (Vdc)	This is composed of four items namely, general and strategic information, financial data, forward looking information and social & board disclosure. The four items are measured using dummy/dichotomous variables. Barako et al. 2007/ Eng &Mark 2004 Content analysis	FS from SOCMES
Financial Reporting Quality(FRQ)	Qualitative characteristics (FQCH)	Measured under three variables- Relevance (R1, R2, R3, R4). Faithful representation- F1, F2, F3, F4 & F5 Understandability- measured under- U1, U2, U3, U4 &U5 R, F and U are measured using a five rating point scale (adopted from Jonas &Blanchet, 2000) and content analysis (Stecolini 2004)	Financial Statements/MD&A from SOCMES. Financial & non-financial information will be used.
	Timeliness of reports(t) in days	Ln of number of days Cohean et al. (2004)	Financial statements

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ANALYSIS

FRQ = $\beta_0 + \beta_1$ Vdc+β_2 AP+ε

Where:

FRQ =Financial reporting quality. It is measured using four different proxies namely; fundamental qualitative characteristics of accounting information, quality disclosures in annual reports, timeliness of reports and earnings quality).

Vdc = Corporate Voluntary disclosure

ACPL = Discretionary Accounting policies and methods

A number of studies have used different measures for quality reporting. However, to measure the financial reporting quality comprehensively in the CSCs, four proxies were used to measure FRQ since there is no universally accepted measure(s) of FRQ (Deschow, Ge and Schrand, 2010). Secondly the use of a single proxy was unlikely to cover all facets of FRQ and to generalize results and test for robustness of the research results. This study used four models to assess the quality of financial and non-financial reporting information in the annual reports considering all dimensions. The study models used were: disclosure quality index, timeliness quality index, fundamental qualitative characteristics model and the earnings quality model.

The qualitative characteristics have been used in many studies to proxy FRQ. The characteristics are divided into fundamental and enhancing characteristics. This study adopted faithful representation, relevance and understandability characteristics as measures of quality reporting. Relevance, faithfulness representation and understandability variables were analyzed using a five point rating scale to assess the scores on the items presented and disclosed in the financial statements of commercial state corporations and as used in IASB (2008) and Mahdavikhou & Khatanlou (2011). The characteristics were based on fourteen questions cutting across on both financial and nonfinancial accounting information. The points awarded to each question are used to compute standardized scores on each qualitative characteristic. The standardized scores are added together then averaged, to ensure that both the characteristics are weighted equally. The scores range from 1 to 5; where 1 indicate poor quality and 5 implies excellence.

Jonas and Blanchet (2000) and Lee et al, (2002) developed questions referring to separate qualitative characteristics in order to assess information quality. The qualitative characteristics are divided into two major aspects, namely, the fundamental qualitative characteristics which are used to determine the content of financial reporting information and the enhancing qualitative characteristics used to enhance the fundamental characteristics.

Beest et al. (2009) who used a 21- item index in determining FRQ in the listed companies in the US and UK confirms the reliability of the measures.

The study sought to determine the level of influence on corporate voluntary disclosure in commercial state corporations, by assessing the extent of accounting information disclosure on four major categories; general and strategic information, financial data, forward looking information and social and board disclosure.

General and Strategic Information

Thirteen items were used to determine the extent of general and strategic information across the firms by assigning value of one (1) score for each item disclosed within the financial statements and a value of zero(0) where the item is missing. Table 2 is used to present the summary of the findings.

Table 2: disclosure of strategic information

Items	No	Yes	Total
Information related to general outlook of economy	16	221	237
	6.8%	93.2%	100.00%
mission statement	41	196	237
	17.3%	82.7%	100.0%
brief history of the company	26	211	237
	11.0%	89.0%	100.0%
organization chart	47	190	237
	19.8%	80.2%	100.0%
description of major services	38	199	237
	16.0%	84.0%	100.0%
description of marketing networks	106	128	234
	45.3%	54.7%	100.0%
contribution to national economy	45	192	237
	19.0%	81.0%	100.0%
current business strategy	61	176	237
	25.7%	74.3%	100.0%
effect of business strategy on current performance	92	142	234
	39.3%	60.7%	100.0%
market share analysis	97	139	236
	41.1%	58.9%	100.0%

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Table 2…

disclosure related to competition in the industry	100	137	237
	42.2%	57.8%	100.0%
decision about major regional economic development	82	155	237
	34.6%	65.4%	100.0%
information on political stability	119	114	233
	51.1%	48.9%	100.0%

The major findings show that out of the thirteen items evaluated, almost all the commercial state corporations annual financial statements contained information related to general outlook of economy at 93.2% (196). From the findings , other items that had the highest disclosure included; information on brief history of the company (89%), description of major services (84%), mission statement (82.7%) and contribution to national economy (81%). The most poorly disclosed items across commercial state corporations were; information on political stability (48.9%) and description of marketing networks (54.7%). The major finding is that commercial state corporations generally disclosed sufficient general and strategic information in their annual financial statements.

Disclosure of Financial Data information

The study sought to measure the level of corporate voluntary disclosure using the number of disclosure on eight items; testing on the extent the management provides the information voluntarily. The items were rated on a dichotomous rating. The summary on the section for the last two years or over is presented in the Table 3 below.

Table 3: Summary of financial data

	Missing items	Disclosed	Total
financial data for the last TWO years or over	74	146	220
	33.6%	66.4%	100.0%
review of current financial result & discussions	43	194	237
	18.1%	81.9%	100.0%
statement concerning wealth created	111	125	236
	47.0%	53.0%	100.0%

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Table 3…

inflation adjusted statement	155	82	237
	65.4%	34.6%	100.0%
ROA	153	84	237
	64.6%	35.4%	100.0%
ROE	144	93	237
	60.8%	39.2%	100.0%
Liquidity ratios	133	104	237
	56.1%	43.9%	100.0%
gearing ration	130	105	235
	55.3%	44.7%	100.0%

The findings show that the most disclosed item in the financial data were the review of current financial results and discussions of the major factors underlying performance (81.9% at a score of 194) and Summary of previously financial data for at least two years or over (66.4% at a score of 146). This is an indication that commercial state corporations review their performance periodically. This kind of review may impact on financial reporting quality by enhancing the users needs. The least disclosed item under this category was the statement of inflation adjustments (34.6% at a score of 82). This is an indication that most commercial state corporations did not provide for the adjustments of inflations in their statements. The lack of this information within the annual statements may impact on the FRQ. Other information disclosed were below 50%, were basically financial ratios namely; ROA, ROE, liquidity and gearing ratios with the percentage disclosure of (35.4%,39.2%,43.9% and 44.7%). The Summary of the findings is that out of the eight items used to measure the disclosure on financial data, five were below 50%. This is an indication of a weak corporate voluntary disclosure.

Forward Looking Information

The study sought to determine the level of voluntary disclosure in providing forward looking information in the financial annual statement of commercial state corporations (see Table 4).

Table 4: Summary of forward looking information disclosure

Items	No of firms Not Disclosed	No of Items Disclosed	Total Disclosure
factors affecting future performance	83 (37.7%)	137(62.3%)	220 (100.00%)
business strategy	80 (33.8%)	157(66.2%)	237(100.00%)

Table 4…

ıct/service .	91 (38.6%)	145(61.4%)	236 (100.0%)
planned capital expenditure	161(67.9%)	76 (32.1%)	237 (100.00)
planned advertising and publicity	198 (83.5%)	39 (16.5%)	237 (100.00%)
EPS	159 (67.7%)	76 (32.3%)	235 (100.00%)
Sales revenue forecast	165 (71.1%)	67(28.9%)	232(100.00)
profit forecast	189 (81.1%)	44 (18.9%	233(100.00%)

Social and Board Disclosures Information

The study sought to determine the level of social and board disclosure in the annual financial statements of commercial state corporations in Kenya. The findings from analysis is presented in Table 5.

Table 5: Summary of social and board disclosure

Items disclosure	Number of disclosures across the firms in %
number of employees	40.6%
change in employment numbers	34.0%
productivity per employee	7.2%
indication of employee morale	50.0%
workplace safety	32.2%
data on work place accident	13.6%
statement on CSR	74.2%
statement on environmental policy	76.6%
environmental projects	64.4%

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community involvement	59.3%
name of directors	70.3%
academic and professional qualification of directors	61.9%
age of directors business experience of directors	59.3%
directors shareholding	33.1%
disclosure on senior management	89.8%

The findings in Table 5 indicate that most of the commercial state corporations do well in Corporate voluntary disclosures in the areas of senior management, environmental Policy, corporate social responsibility, name of directors and environmental project (89.8%, 76.6% and 74.2%, 70.3% and 64.4%) respectively. However, the commercial state corporations scored badly in the area of productivity per employee (7.2%). This should be a core area to address, given the commercial nature of the state corporations in Kenya.

From content analysis of the annual statement of CSCs, the generally lower rate of corporate voluntary disclosure was mostly reported in commercial state corporations' affiliated to the Ministry of Agriculture, Livestock and Fisheries. The transformed data was then analyzed across the CSCs using ANOVA as shown in Table 6.

Table 6: Significance of corporate voluntary disclosure

Source of variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	9.67133	0.33349	4.69	<.001
Residual	211	15.01883	0.07118		
Total	240	24.69017			
Mean	s.e.	cv%			
0.5615	0.2668	47.5			

Table 6 present the aggregate mean index of corporate voluntary disclosure for the commercial state corporations is (0.5615) with a standard error of 0.2668. The corporate voluntary disclosure is significant with variance ratio (4.69) and value <0.001. This justified the inclusion of the variable in the model. The variable can be used to explain the variation in the study model. This is also supported by the coefficient of variation of (47.5%). The variable is able to explain the variation up to a level of 47.5%.

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Descriptive Statistics

The descriptive statistics is summarized in terms of, grand mean, maximum standard error of difference, average standard error of difference, minimum standard error of difference, minimum least significance, average least significance and maximum least significance. Table 7 presents the descriptive statistics for current study.

Table 7: descriptive statistics

Variables	N	Grand Mean	Minimum Standard Error of difference	Average Standard Error of difference	Maximum standard Error of difference	Minimum Least Sig	Average least Sig	Max Least Sig
ACP	211	0.6045	0.0801	0.0945	0.1551	0.1579	0.863	0.3058
VOLD	211	0.5615	0.1193	0.1408	0.2311	0.2352	0.2775	0.4555
Timelines	211	203.78	47.13	55.62	91.27	92.9	109.6	179.9
QCHR	210	2.6086	0.2006	0.2371	0.3885	0.3955	0.4673	0.7659

The most prominent variables in the model are timeliness quality and fundamental qualitative characteristics which have reported high mean (203.78, 2.6 respectively) and maximum least significant difference (179.9, 5.041, 0.7659 respectively). Other variables, accounting policies and voluntary disclosure have reported mean slightly above average (0.6045 and 0.5615 respectively) as compared to the other variables in the model.

Discretionary Accounting Choices and Financial Reporting Quality

We further opted to determine the relationship between discretionary accounting choices and financial reporting quality in commercial state corporations in Kenya. From empirical studies and theoretical understandings is that accounting choices are channels through which managers affect financial reporting quality. Most of the studies reviewed have so much concentrated in measuring FRQ using earnings management, but this is not the only measure for FRQ, there are other measures namely ; disclosure quality, fundamental qualitative characteristics and timeliness in reporting. The use of earnings management as a measure of FRQ has given mixed results with different independent variables. Therefore, it is anticipated in this study that the use of discretionary accounting choices would not have any significant relationship with other FRQ proxies. Hence, the following hypothesis.

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Discretionary accounting choices have no significant relationship with financial reporting quality in commercial state corporations in Kenya.

We then tested the hypothesis using sub the four proxies of financial reporting quality. It is therefore expected that discretionary accounting policies would provide different results with the four proxies of quality namely; disclosure quality. Hence, the following sub hypothesis was tested:

Discretionary accounting choices have no significant relationship with disclosure quality in commercial state corporations in Kenya.

The result of Pearson correlations shows a correlation coefficient of r=0.016, p > 0.05. This is an indication of no relationship in the model. To confirm whether there is a relationship between discretionary accounting choices and disclosure quality, ordinary least square analysis was conducted and results presented in Table 8.

Table 8: Regression results on the effect of discretionary accounting policies on disclosure quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.016a	0	-0.004	0.225033636	0.059	0.808(a)

Based on the results in Table 8, R^2 of (0.00) and adjusted R^2 is (-0.004) which confirm that the variation in disclosure quality is not explained by discretionary accounting choices. The implication is that discretionary accounting policies are one of the mandatory components of overall disclosure quality. Therefore with R-square of 0.0, the F value of 0,059 is insignificant (Sig. =0.808) the discretionary accounting choices made in commercial state corporations, thus, the model is not a good predictor of disclosure quality in CSCs in Kenya, hence, the hypothesis is confirmed.

We further tested the second sub hypothesis :

Discretionary accounting choices have no significant relationship with fundamental qualitative characteristics in commercial state corporations in Kenya.

In order to determine the relationship between discretionary accounting choices and fundamental qualitative characteristics, Pearson moment correlation was used as to test for the relationship. The results from Table 9 shows a correlation coefficient of r= 0.045, p> 0.01. This means there is no significant relationship between the two variables. In order to confirm the effect of discretionary accounting policies on fundamental qualitative characteristics, OLS was conducted and results of the findings are shown in Table 9 (ii) below.

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Table 9 (i): Correlations between Discretionary Accounting Choices and FRQ

		D-quality	Earning	q-character	timeliness	ACPL
D-quality	Pearson Correlation	1	-0.005	.194**	0.031	0.016
	Sig. (2-tailed)		0.938	0.003	0.634	0.808
Earning	Person correlation	-0.005	1	-.197**	0.076	0.051
	Sig. (2-tailed)	0.938		0.003	0.253	0.441
Q-charac	Person correlation	.194**	-.197**	1	-.373**	0.045
	Sig. (2-tailed)	0.003	0.003		0	0.485
Timeliness	Person correlation	0.031	0.076	-.373**	1	-0.113
	Sig. (2-tailed	0.634	0.253	0		0.08
ACPL	Person correlation	0.016	0.051	0.045	-0.113	1
	Sig. (2-tailed	0.808	0441	0.485	0.08	

** Correlation is significant at the 0.01 level (2- tailed).

Table 9(i)…

Table 9 (ii): Regression results on the relationship between discretionary accounting policies and fundamental qualitative characteristics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig
1	.045a	0.002	-0.002	0.671942265	0.489	0.489(a)

a. Predictors: (constant), accounting policies, voluntary disclosure

b. Dependent variable: fundamental qualitative characteristics

The results from Table 9 shows that R^2 =0.002 and adjusted R^2 -0.002, this implies that the model is not a good predictor, at p value =0.485. Hence the hypothesis is confirmed.

Discretionary Accounting Choices and Timeliness Reporting Quality

The effect of timely reporting of annual financial information has been discussed in the empirical literature as one of the qualities of good accounting information. Not much has been done to confirm the relationship between discretionary accounting choices and timeliness in reporting. Commercial state corporations take longer durations before the

Discretionary accounting choices have no significant relationship with timeliness reporting quality in commercial state corporations in Kenya.

The Pearson correlation results between discretionary accounting policies and timeliness reporting quality showed no significant relationship between DAC and timeliness reporting but have negative correlations (r =-0.113, p= 0.08). The regression analysis also confirms that there is no significant effect between the two study variables. The results of the regression is shown in Table 11.

Table 11: Regression results of the relationship between discretionary accounting choices and timeliness reporting quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.113a	0.013	0.009	5.06E+00	3.096	0.080

Thus Hypothesis is confirmed since the findings showed no significant effect between discretionary accounting choices (accounting policies) with timeliness reporting quality.

Since the study was to determine the relationship between the discretionary accounting choices and financial reporting quality under, timeliness quality, regression coefficients show no significant positive relationship with timeliness quality and significant effect at 0.05 level of significant, the hypothesis is confirmed.

Discretionary Accounting Choices and Financial Reporting Quality

We further set to determine the relationship between discretionary accounting choices and financial reporting quality in Kenyan commercial state corporations. Four sub hypotheses were derived from objective three and tested. The four sub-hypothesis were confirmed as discussed in chapter five. There was no relationship between DAC and FRQ indicators in CSCs in Kenya.

The findings under the four measures of financial reporting quality showed no relationship with discretionary accounting choices. The study examined discretionary accounting choices using five items namely ; revenue recognition, inventory valuation, depreciation of assets, reserves, allowance and contingent liabilities.

The findings seem to go against the theoretical and empirical understandings. The theoretical understandings is that discretionary accounting choices are indirectly or direct associated with earnings management, disclosure quality and the nature of information expected from the annual reports. Smith and Watts (1992) find that inventory write downs, write off of receivables and depreciation methods used on fixed assets potentially lower earnings

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reported. Guay, Kothari and Watts (1996) uses discretionary accounting choices to explain the quality of earnings forecast in listed companies. However, the context of the current study is different, but still the results raise questions why no relationship. The findings in chapter four indicates that the five Policies used in the study only account for 29.6% variations.

The theoretical understandings on the relationship between discretionary accounting choices is that the existence of pressure from shareholders, bondholders and regulators have greater influence on the choices made by TMTs. Healey 2005 argues that the choice of accounting Policies to use result from pressure of compensation, debt contract and political expectations. With freedom in accounting choices of policies and increase in information asymmetry there is need to enhance monitoring (Jensen and Meckling 1976). However, it is not clear whether the freedom of choice may be influence by other factors other than top management.

Ling (2012) finds that individual managers characteristics significantly influence accounting choices over time. His findings is consistent with the current findings where education, tenure and functional background of the TMT in commercial state corporation significantly affect discretionary accounting policies. Helsen (1998) finds significant relationship between discretionary accounting choices and earnings quality management and disclosure quality. Hribar and Yang (2010) find significant relationship between demographic characteristics of TMTs and accounting choices. Davidson et.al (2007) examined the relationship of top management age and functional career background on earnings quality. The findings showed that older managers are rarely associated with aggressive accounting policies that would increase earnings. All these studies point to a relationship between TMT characteristics and FRQ (earnings management), relationship between accounting Policies to FRQ (earnings management). Therefore the formulation of the hypothesis was informed by the literature. However, no literature linked of the literature to the other proxies for FRQ (disclosure quality, timeliness and fundamental characteristics).

The literature has provided alternatives to why other measures namely ; disclosure quality, timeliness and fundamental qualitative characteristics are not popular in literature. Benish (2001) argues that most studies prefer using earnings quality as proxy FRQ because it is easier to determine firms value from earnings. Jiang et al. (2008) note that accounting earnings are the most widely used measures of FRQ, given that accounting rules and standards provide TMTs of firms with considerable opportunities for earnings management. Hence much attention has been devoted to earnings management. While Matsunaga and Yuen (2008) put it clear that FRQ depends on Managerial motives and characteristics, Hence the most appropriate measure is earnings management.

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Therefore the conclusion is that discretionary accounting choices do not mediate the relationship between demographic diversity and FRQ in commercial state corporations in Kenya. The failure of the mediation may be attributed to mode of measurement of the variables. The use of dummy variable result into sidelining one effect of the variable. The second reason would be the accounting Policies used were limited to five, and currently the level of discretion by the management might have been reduced through the adoption of international accounting standards in line with IAS (2008) FASB (2008).

The study finds that corporate voluntary disclosure is influenced by some of the demographic diversity of top management. The tenure and education diversity of the top management team influence the extent of information disclosure in commercial state corporations in Kenya. Cheng (1992) argues that corporate disclosure is one of the tools that mangers use to communicate information to the stakeholders and mandatory disclosures (disclosure quality) is the responsibility of the regulatory organizations (IASB, FASB, ICPAK etc.). To show how important CVD is Li(2008) measures financial disclosure transparency using Fog index which is highly computerized model measuring the readability of the information disclosed.

CONCLUSIONS AND LIMITATIONS

This study lays a broad foundation for the future research work into the theory and practice of financial reporting quality in commercial state corporations in Kenya. The study tested the relationship between discretionary accounting choices and financial reporting quality, then tested for the influence of discretionary accounting choices on the relationship between top management team and financial reporting quality. The study tested for the effect of corporate voluntary disclosure on top management team and financial reporting quality. Finally the researcher, tested for the extent to which corporate voluntary disclosure and discretionary accounting choices affect financial reporting quality.

We further reported that, there exist both positive and negative relationship between discretionary accounting choices and financial reporting quality. The relationship differs with each financial reporting quality measures. This makes it difficult to have composite index for the four measures of financial reporting quality. However, the relationship that exist between the variables is likely to enhance financial quality reporting in state commercial corporations in Kenya.

Despite reporting Varied results on the effect and relationship on the current study variables, the study findings contribute to both knowledge and management Policies. Any study guided by empirical testable hypothesis serve the purpose of either validating the theory or falsifying the theory. The findings reveal a weak financial reporting quality in commercial state

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corporations in Kenya as a result of asymmetric information between commercial state corporations and the stakeholders and the indicators used in measuring FRQ. Disclosure serves to control agency cost that appear when ownership is more dispersed (Garcia- Meci et al.2005). However, the state corporations have concentrated ownership that needs to be dispersed through voluntary disclosures. With enhancement of corporate voluntary disclosure, managers can influence the expected interpretation of financial reporting quality components since financial reporting quality is considered positively associated with low level of earnings management and more corporate voluntary disclosure.

The study investigated the demographic diversity of top management team, discretionary accounting choices and shows empirically that demographic diversity is a factor that influences the financial reporting quality mediated by discretionary accounting choices.

The study has contributed to knowledge in several ways ; firstly, this study sets pace for studying financial reporting in state corporations which have been neglected for non profit making. Secondly, the study has contributed to methodological contribution that help advanced financial reporting quality in the future to other non profit making organizations. Most of this institutions have not been considered as viable due to their nature of doing business. The , contribution to empirical, this involves testing the extent to which corporate voluntary disclosure affect financial reporting quality under four measure namely disclosure quality, fundamental qualitative characteristics, earnings management and timeliness reporting quality in commercial state corporations in Kenya. The current study has also added to knowledge on measures of determining financial reporting quality in the commercial state corporations which may not list in the stock exchanges. The fundamental qualitative characteristics measures both financial and non financial attributes of the firm whether listed or not listed, hence, a robust measure for corporations that do not list in stock exchanges. Timeliness reporting quality has been introduced in measuring financial reporting quality by examining how first the annual statements are released to the general public and other stakeholders. The results were not as robust as that of fundamental qualitative characteristics. But the findings were significant with some demographic variables.

The study contributes to development of Policies relevant in enhancing voluntary disclosure Policy given that it is not mandatory to disclose them. Since accounting choices applied vary from organization to organization. The institutionalization of the disclosure policies will help in enhancing Uniform and comprehensive disclosures across the firms. Practioners will use the findings in enhancing the BoDs, audit committee and top management composition towards enhancing value of the firm. The study is more significant in the composition of top management team. Upper echelons theory suggests cross-sectional differences in managers'

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demographic characteristics (functional background, age, education, values and cognitive bases) enhance firms out comes. This should be used by top management to enhance their performance. Because of the inadequacy of mandatory disclosure by firms, the proactive action by firms such as voluntary disclosure provides investors with the necessary information to make more informed decisions (Madhani, 2007b).

The researcher was limited to state commercial corporations thus could have restricted the courrent findings, future researcher can go beyond these firms by looking at other firms in the public sector. Thus future researcher may try and center their analysis on firms in specific industries other tan lumping them together. The researcher used secondary data only with limited content analysis which might have limited the Access from other vital information that could have been captured via primary data. The researcher only restricted the Study to Discretionary accounting methods and accounting Policies which may be affected differently by time lags. There are other areas in accounting that required managers discretionary choices. The study was also limited to ten years only. With prolonged period and increased data point a better conclusion could be arrive at. The researcher was only limited to 30 state commercial corporations. Another limitation is the measurement of voluntary disclosures and discretionary policies which are a subjective exercise; different researchers will definitely have different ratings of voluntary disclosure items.

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