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Relationship between Voluntary Disclosure and Value of Listed Insurance Companies in Kenya

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Abstract:
Despite growth in presentation and disclosure requirements as enclosed in company and securities laws and international financial reporting standards (IFRS), mandatory disclosure requirements continue to provide the minimum information content required by various stakeholders of the firms for purpose of economic decision making. This paper aims to study whether voluntary disclosure of investment, financial, non-financial and governance information affect the value of insurance firms in Kenya. A quantitative research was adopted that analysed five-year data (2011 to 2015) of all listed insurance companies in Nairobi security exchange. The result revealed a positive and significant relationship between voluntary disclosure of the four explanatory variables and the value of insurance firms. Disclosure of investment policy has the strongest relationship while non-financial information has the weakest relationship to firm's value. Voluntary disclosures help in reducing information asymmetry between managers and external stakeholders and provide a more complete picture of firm's engagements and activities and more comprehensive information for purpose of firm valuation.

Keywords: *voluntary disclosure, investment information, financial information, non-financial information, governance information, firm value*

1. Introduction

Information is power that enables an individual to make informed decisions (Byetheway, 2015). No amount of information can be termed as enough due to the uncertainty created by the future (Asava, 2013). Two main ways of disclosing company information to different stakeholders are through compulsory and voluntary disclosures (Li & Yang, 2015). According to Tian and Chen (2009), compulsory disclosure refers to company's compliance to a set of pertinent rules and laws such as company and securities laws, accounting rules and other regulatory bodies in the reporting and release of company information. On the other hand, voluntary disclosures are exception information reported over and above what is recommended by law and rules with an intention of raising companies' images, increasing investor confidence and thus avoiding accusation risks (Shehata, 2014). Li and Yang (2015) note voluntary disclosure is a complement of the mandatory disclosure wherein the former gives verifiable information that increases the credibility of the latter. Since voluntary disclosure is more elaborate, it helps improve completeness and ensure credibility of the compulsory disclosure to potential investors. Subsequently, it helps drive the fluidity of the capital markets, warranting for more effective capital allocation (Tian & Chen, 2009). However, the amount of corporate voluntary disclosure made available is at the discretion of the company's management (Rouf, 2011).

Different motives have necessitated voluntary disclosure, namely information asymmetry and increased coverage from analysts (Graham, Harvey and Rajgopal, 2005), to retain corporate control (Healy & Palepu, 2001), stock compensation (Aboody and Kasznik, 2000), to signal management talent to forecast (Trueman, 1986) and as a result of drawbacks with the mandatory disclosure (Graham, Harvey and Rajgopal, 2005; Al-Razeen & Karbhari, 2004). Information contained in voluntary disclosure has no defined format or description since it is at the discretion of management and for that reason, comprehensive voluntary disclosure combined with mandatory disclosure will convey a more complete picture of the company status and performance.

This paper study the relationship between voluntary disclosures among insurance firms and their value. Voluntary disclosures are classified into four; investment, financial, non-financial and governance information. The paper objective is to examine whether voluntary disclosure enhances firms value. Its structured as follows: section 2 discusses empirical literature relating to voluntary disclosure, section 3 describes the data and methodology used in the study, section 4 presents the main results and lastly, section 5 concludes the findings.

2. Literature Review

Investment of insurance premium and other funds plays a key role in determining the value of insurance firm (Hussain, 2015). Investment plan is reflected in investment policy statement (IPS), a document that outlines investment risk and return objectives and constraints faced in the investment process (Chartered Financial Analysts Institute, 2010). These objectives and constraints are integrated with long term capital market expectations to guide on which asset classes to commit investable funds to. Disclosure of the contents of IPS has an impact on the value of investment that a potential investor is willing to pay for the firm. Current investors are able to assess suitability and prospects of the investment vehicles where insurance premiums have been committed to in the company as a whole. When an insurance firm discloses its generating a positive net interest spread between return on investment and return to policy holder in life insurance business and surplus margin after meeting non-life insurance claims, investors are assured that the firm is holding to their cardinal goal of wealth maximization as long as management do not divert firm resources elsewhere (Servaes & Tamayo, 2013). Investors in the insurance companies, especially those that have gone public, ought to be made aware of nature of investment held by the company as whole.

A firm's strategic plan captures growth and development opportunities available and intended strategy to exploit these opportunities for the benefit of the firm. Disclosure of strategic plan has a signaling effect in the market that enhances perceived value of firm by investors (Deeptee & Roshan, 2009). Verbeeten, Gamerschlag and Moller (2016) define strategic information as the textual facts about a company's social, economic and environmental performance. The trio investigated whether disclosure of investment in corporate social responsibility (CSR) to external stakeholders are associated with firm's value in Germany. They pointed out that while CSR information is value-relevant, it differs among CSR categories. They found disclosure of investment made in social-related activities is positively related to firm value unlike investment in environmental activities. Rouf (2011) examined the association between corporate characteristics, governance attributes and corporate voluntary disclosure levels of listed companies in Bangladeshi. Contrary to Verbeeten, Gamerschlag and Moller (2016), Rouf's findings depicted that, the extent of voluntary disclosure is not positively associated with the profitability of the firm.

Cormier, Ledoux and Magnan (2011) study investigated whether disclosures in social and environmental disclosures have a substituting or complementing effect in reducing information asymmetry between managers and stock market participants. Information asymmetry was inferred from the behaviour of proxy variables namely share price volatility and bid-ask price. They findings were social disclosure reinforces and even substitutes the in formativeness of environmental disclosure for stock market price changes.

Assessment of firm's value focuses more on financial position and performance that is presented in financial statements where most of the compulsory disclosures are financial in nature. Besides the mandatory information presented and disclosed in these statements, there are other financial information, optional to disclose, that may aid investors in making a more informed decision. For example, reporting standards compel firms to disclose only one ratio, earnings per share (International Accounting Standard, IAS 33), though liquidity, solvency and profitability ratios are all important in evaluating financial health of a firm and assessing the opportunity and risks of investments made (Agyei-Mensah, 2015). Disclosure of these ratios is left at the will of the company managers to highlight them in the annual reports.

Biaek-Jaworska and Matusiewicz (2015) studied the determinants of the level of information disclosure in financial statements prepared in accordance to the International Financial Reporting Standards (IFRS 36) on selected Polish listed companies for a period starting 2005 to 2007. Voluntary disclosure was assessed using disaggregated classes of data into strategic non-financial and financial information while profitability, financial leverage and company size were proxies for firm performance. The study found a negative correlation between the extent of mandatory and voluntary disclosure in the company's financial performance (ROE) except for positive relationships with disclosure in management reports. When the company profitability is lower, managers explained the financial position in more details through voluntary disclose in accordance with signaling theory.

Proprietary cost theory argues that companies' limits their voluntary disclosures because of high preparation costs and to limit provision of pertinent information to their competitors (Prencipe, 2004). Haji and Mohd (2012) anchored their study on this theory by examining whether the financial crisis of 2008/9 had some impact on Corporate Voluntary Disclosure (CVD). Through examining CVD before and after the crisis, they found the extent and quality of CVD provided in the annual reports of sampled companies increased greatly following the financial crisis and that corporate social responsibility information was widely disclosed after crisis.

Huang and Watzon (2015) calls for disclosure of non-financial information on social, environmental, employees and sustainability of company's operations. This information is meant to help improve the credibility and acceptance of the company in the market. According to Caramela (2016), CSR disclosure is an expression of the business activities that are meant to benefit the society in which the company thrives. CSR activities involve acts such as those meant to assist in environment, those of philanthropist nature, ethics in labour practices and volunteering to do good expecting no gain are classified as non-financial information. While to some organization CSR is an option, others have taken it as one of viable options for maintaining firm worthiness (Tandry, Setiawati and Setiawan, 2014) In the last decade, many corporations, especially those that dedicate some of the advertisements on the progress of CSR works, have magnified the impact of CSR. The question as to whether there has been a direct link between CSR and firm value still linger in the mind of researchers. In an attempt to answer this question, Servaes and Tamayo (2013) study found that, in instances where the customer is made aware of CSR disclosure through advertising, it results in an enhanced firm value otherwise the relationship may be negative or insignificant. Sudha's (2014) study to link CSR and firm value among S&P 500 companies and listed firms in Indian stock market established that, even with cross-sectional analysis, CSR contributed greatly to the price in which shares trade in this market. Jizi, Nehme and Salama (2015) examined whether CSR disclosure on firm's involvement and commitment to society improves banks' stock prices. Using content analysis technique on data collected from national commercial banks between 2009 and 2010, they found that, the information content of CSR disclosure is appreciated by stock participants and is of value.

The nature of business and corporate governance has evolved over the years, which has consequently led to an increased focus on the disclosure of non-financial information (Bukh *et al*., 2005). According to Arvidsson (2011), non-financial information refers to information that will help achieve the company's mission, vision and corporate strategy. In Luez and Ferrecchia's (2000) view, increased levels of non-financial information disclosure reduce the possibility of information asymmetries between a firm and its existing and potential shareholders. Lu (2014) sought whether the disclosure of non-financial statement (NFS) reduces a firm's underinvestment problem. He found that, disclosure of NFS facilitates the flow of funds from investors to the firm by reducing information asymmetry between managers and stakeholders. The study further revealed that, information asymmetry between managers and potential lenders could lead to underinvestment due to mispricing of debts.

Corporate governance is charged with overseeing whether accountability, transparency and fairness are adhered to by managers, executives and board of directors who constitute company's governing body (Capital Market Authority, 2002). Each element of the corporate governance is assumed to increase the financial performance of a firm. Mateescu (2015) conducted a study to investigate corporate governance voluntary and non-voluntary disclosure practices of listed companies in four European countries namely Estonia, Poland, Hungary and Romania. Data on rule of law, government effectiveness, regulatory quality and transparency was collected from annual reports, corporate governance reports, companies' websites and stock exchanges' websites. Study findings differed in the four countries. The study found that higher and more profitable companies usually disclosed more corporate governance information and companies were more law abiding in countries where the quality of the rules/regulations and the effectiveness of the government is higher.

3. Data and Methodology

The study covered insurance companies registered and operating in Kenya in 2016. Though there are 47 companies, data was collected from the six listed companies for a period of five years from 2011 to 2015. Data was collected from published annual reports as these are main source of both mandatory and voluntary disclosure (Hamrouni, *et al.,* 2015) through self-developed disclosure indices adopted from Hamrouni *et al.,* (2015), Eng and Mak (2003), Meek *et al.,* (1995), Lim *et al.,* (2007) and Francis, Nanda and Olsson (2008). Data was classified into four classes of voluntary disclosure; investment, financial, non-financial and governance information. Inferential statistics namely correlation and multiple regression were applied. Multiple regression model was formulated as follows:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Y= Firm value

X_1= Investment policy information

X_2= Financial information

X_3=Non-financial information

X_4= Governance information

$\varepsilon_{i,t}$ = Error term

4. Results

Table 1 shows the descriptive analysis for voluntary disclosure and listed insurance firm value variable. From the results, firm value based on Tobin's Q ratio had a minimum of 29% and a maximum of 82%, with an average of 56%. Investment information disclosure had the highest average of 80%, followed by 61% on governance voluntarily disclosure, while 54% of non-financial was voluntarily disclosed and 50% of financial was disclosed.

	Minimum	Maximum	Mean	Std. Deviation
Firm Value	0.29	0.82	0.56	0.14
Investment Disclosure	0.57	0.98	0.80	0.09
Financial Disclosure	0.29	0.73	0.50	0.12
Non-Financial Disclosure	0.37	0.71	0.54	0.10
Governance Disclosure	0.36	0.86	0.61	0.12

Table 1: Descriptive Statistics of firms in 5 years

Table 2 shows the correlation matrix which measures of the strength of the degree of the association between voluntary disclosure and firm value among listed insurance companies in Kenya. The results of the correlation of showed a positive and significant relationship between investment policy voluntary disclosure (rho= 0.424, p value < 0.05), financial disclosure (rho = 0.363, p value <0.05) non-financial disclosure (rho = 0.279, p-value <0.05) governance disclosure (rho = 0.215, p value <0.05) and firm value among listed insurance companies

	Firm Value	Investment Disclosure	Financial Disclosure	Non-Financial Disclosure	Governance Disclosure
Firm Value	1				
Investment	.424*	1			
Disclosure	0.02				
Financial	.363*	-0.175	1		
Disclosure	0.049	0.354			
Non-Financial	0.279*	0.313	-0.162	1	
Disclosure	0.03	0.092	0.394		
Governance	0.215*	0.1	0.248	0.293	1
Disclosure	0.04	0.598	0.187	0.116	
* Correlation is significant at the 0.05 level (2-tailed).					

Table 2: Correlation Matrix

Regression analysis results revealed that, all the four explanatory variables when combined significantly explained variations in firm's value. R-squared reported was 0.678 while Adjusted R-squared of 0.627 implied 62.7 percent of the variation in firm's value is explained by the level of voluntary disclosure as assessed by investment, financial, non-financial and governance information. In addition, there was insignificant autocorrelation since the Durbin Watson coefficient was 1.725, which is within the acceptable region of 1.5 to 2.5 (Gujrati et all, 2012). This is presented in table 3 while table 4 shows the four explanatory variables have a positive and significant relationship with the firm's values.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.824a	0.678	0.627	0.086929	1.725
a Predictors: (Constant), Governance Disclosure, Investment Disclosure, Financial Disclosure, Non-Financial Disclosure					
b Dependent Variable: Firm Value					

Table 3: Overall Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.732	0.181		4.043	0.000
	Investment Disclosure	0.767	0.188	0.493	4.084	0.000
	Financial Disclosure	0.594	0.145	0.502	4.106	0.000
	Non-Financial Disclosure	0.919	0.178	0.656	5.168	0.000
	Governance Disclosure	0.572	0.148	0.482	3.855	0.001
a Dependent Variable: Firm Value						

Table 4: Overall Model Regression Coefficients

Diagnostic tests were carried to test the overall regression assumptions model. A normality test was conducted using histogram. The pictorial presentation in Figure 1 showed that firm value was approximately normally distributed with a mean of 0 and standard deviation of 1.

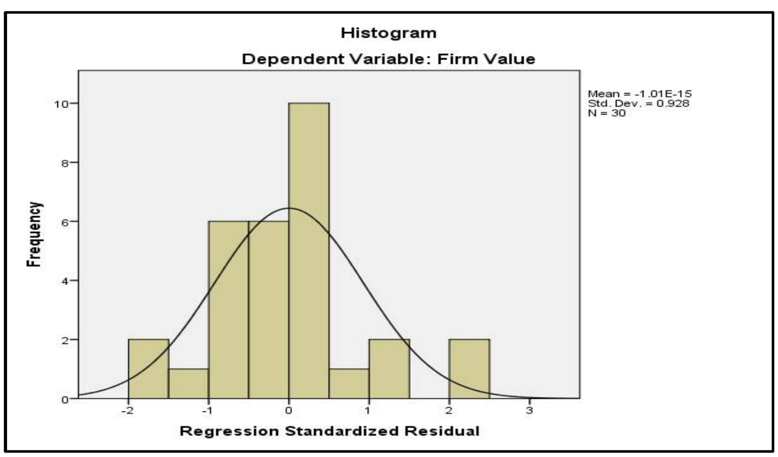

Figure 1: Normality test

Multi-collinearity test was done by using Tolerance and Variance Inflation Factor (VIF). According to Montgomery, Peck and Vining (2001), VIF value that is greater than or equal 10 (VIF ≥ 10) indicates multi-collinearity poses a problem while tolerance statistic shows the seriousness of the problem. Specifically, Tolerance value below 0.1 mean a very serious problem while below 0.2 indicate a potential problem. Table 5 displays the result of analysis, which demonstrates that multi-collinearity was not a problem among the explanatory variables.

	Collinearity Statistics	
	Tolerance	**VIF**
Investment Disclosure	0.883	1.132
Financial Disclosure	0.861	1.162
Non-Financial Disclosure	0.798	1.253
Governance Disclosure	0.822	1.216

Table 5: Multicollinearity Test

5. Conclusion

The main objective of the study was to examine the relationship between voluntary disclosure and value of listed insurance companies in Kenya. Findings revealed that, disclosure of the four variables had a positive and significant relationship with the insurance companies' value. This implies the more the disclosure the firm makes, the more informed investors are on how a firm is performing, which enhances value. Therefore, to avoid speculation by investors and other stakeholders, insurance firms need to clearly substantiate how their invest premium and other funds received by disseminate both qualitative and quantitative non-financial and financial information beyond the mandatory requirements.

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