Relationship between the Chairman’s Statement and the Value Relevance of Annual Reports for Listed Banks in Kenya

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Abstract: The purpose of this study was to explore whether there is a significant relationship between chairman’s statement, as a representative of non-financial disclosures otherwise called narrative accounting, and value relevance of annual reports for listed banks in Kenya. The study used content analysis and financial analysts’ perception to quantify sixty chairman’s statements included in years 2010 to 2015 annual reports of ten banks listed on the Nairobi Securities Exchange (NSE) over the entire period. The study adopted a survey research design. Both primary data and secondary data were used. Primary data was obtained through survey questionnaires administered on respondents who were financial analysts at a total of sixty one firms (investment banks, stock brokers, fund managers and investment advisers) who were licensees of Kenya’s Capital Markets Authority (CMA) as at 30 April 2016. Secondary data was obtained from the corporate action register by NSE, NSE handbook, the daily market statistics from the NSE and annual reports released by the banks studied. Content analysis program ATLAS.ti 8, OneLook dictionary and Ms Excel 2007 were used for content analysis. Data analysis was carried out using SPSS version 20 and Stata 13. Descriptive and inferential statistics were used for analysis. Statistical F-test was used to test the significance of the independent variable on dependent variable. The results revealed that the chairman’s statement had a positive and significant relationship with value relevance of annual reports which was measured by the annual average market price per share. This study therefore concluded that inclusion of the chairman’s statement in annual reports is useful for investment decisions on the shares of listed banks. The study recommends an expanded role of the auditor in reviewing the chairman’s statement and other accounting narratives. Currently in accounting reporting, auditors do not formally audit but instead review the accounting narratives to ascertain if the narratives are consistent with the financial statements. The study also recommends more guidelines and regulations in relation to non-financial disclosures.

Keywords: value relevance, chairman’s statement, annual reports, non-financial disclosures, narrative accounting

I. INTRODUCTION

Background of the Study

Traditionally, firms’ annual reports mainly comprised of financial statements and financial information has always been one of the key building blocks of a firm’s reporting (O’Regan, 2008). Overtime, the economic environment has mainly changed due to globalization. To create value, firms more and more rely not just on their resources but also on the resources belonging to the society. Therefore, the value creation process is based on the principle of - shared costs. As a result, the value created by an organization should also be shared between its owners and society. Quality reporting by firms is therefore progressively vital for strong and sustainable organizations, financial markets, and economies.

Amid recognition that financial statements alone do not sufficiently capture a firm’s performance and prospects, organizations have been forced to react to stakeholders’ demands and the significance of inclusion of non-financial disclosure have increased cumulatively (Stewart, 2015). The requirements on reporting have changed and an integrated approach where financial as well as non-financial disclosures are consolidated within the annual reports, otherwise called integrated reporting, has become the new era of information disclosure (Badenhorst et al., 2015)

Solomon and Maroun (2014) observe that since 1970 there has been a remarkable development in corporate reporting which has resulted in longer and more complex reports. Almost every company listed on an ex-change provides a lot of information in their annual reports and non-financial information has gained more importance. Corporate annual reports go beyond the financial measures, presenting a broader perspective (IIRC, 2017). According to Deloitte (2012) the average length of annual reports had doubled since 1996.

The Prince of Wales oversaw the formation of International Integrated Reporting Committee (IIRC) a global coalition of regulators, investors, companies, standard setters, the accounting profession and Non-Governmental Organizations in 2009. The Committee was renamed the International Integrated Reporting Council (IIRC) in November 2011, (Downes, 2015). IIRC has a major influence on corporate reporting, since it is charged with the development of an international reporting frame-work. The Council intends to create a framework for integrated reporting that meets the needs of the 21st century. At present, the council is working with a business network of eighty leading companies worldwide and inputs from academia, corporations, investors and
the society in general are needed for the successful implementation of integrated reporting so as to diminish the information asymmetry (IIRC, 2017). According to KPMG (2017) integrated reporting should be at the heart of every organization with the intention of creating accountability for the future society.

Consequently, critical questions related to value relevance of annual reports as prepared presently have been raised (Gjerde et al., 2011). The term ‘value relevance’ in the context of accounting information was first introduced by Amir, Harris and Venuti (1993). A disclosure is said to be value relevant if it is significantly associated with equity market values of the disclosing entity (Perera & Thrikawala, 2010).

Cascino et al. (2013) observe that the advancement regarding integrated reporting is an ongoing process and that much of this is unregulated and therefore preparers are free to express themselves. This invites impression management occasioning the potential for readers to be treated to particular interpretations and ways of thinking. According to Stephen Downes (2015), one of the biggest challenges facing integrated reporting is the extent to which users can rely on what they will read. While the main objective of integrated reporting is to improve the quality of information available to diverse users, its proponents acknowledge that if this information is to be value relevant, it must be reliable (Daniel, et al., 2017).

According to IIRC (2017), the connections need to be made clear and the clutter needs to be removed in integrated reports for them to be value relevant. KPMG (2017) also observe that it is not enough to keep on adding information. Badenhorst et al. (2015) note that preparers of corporate annual reports have compelling motivations to maneuver the content of these reports, or at least control the impression they communicate. Subsequently, many studies have been done on the ability of non-financial disclosures in annual reports to explain or capture information that affects firms’ value.

Some studies concluded that non-financial disclosures affect the value of the firm. In a study on how disclosure of comprehensive types of related party transactions influenced the performance of listed companies in Shanghai and Shenzhen Stock Exchanges from 2002 to 2006, Yenpao, Chien-Hsun and Weiju (2009) observed a relationship between related party sales, loan, guarantee, and lease and firms’ performance. They concluded that this may suggest that these transactions affect firms’ market performance negatively or positively depending on whether the listed firm is the controlling or controlled party.

In an examination of the influence of corporate risk disclosure on the accuracy of earnings forecasts on a broad sample of non-financial firms over the period 1990 to 1999, Wayne, David, and Bernadette (2003) concluded that analysts resolve between 28% and 56% of the total uncertainty created by interest rate, exchange rate, and commodity price shocks (the percentage reduction depends on the types and magnitudes of a given firm's exposures). In a study of non-financial information disclosure and its impact on share prices in UK biotechnology sector Elisabeth, Stephen, Arun, and Chun-Hao (2008) using a sample of firms from the high - R&D UK biotechnology/ pharmaceutical sector, concluded that market’s reaction to non-financial information, varies between larger dominant firms and their smaller counterparts.

Clatworthy and Jones (2006) looked into the chairman’s statement of firms whose equity market value performance was poor by studying differential patterns of textual characteristics in the chairman’s statement among 100 very profitable and unprofitable UK listed firms. They concluded that chairman’s statement for firms doing poorly tend to focus on the future rather than reporting on the past. This conclusion implies a relationship between equity market value and chairman’s statement.

Some studies have concluded that non-financial disclosures do not affect the value of the firm. Belkhir (2006) who studied board structure, ownership structure, and firm performance in the banking industry in USA among five ownership and board characteristics disclosures in a sample of 260 bank using two-stage least squares regressions observed that board composition disclosures has no bearing whatsoever on wealth maximization.

The chairman’s statement is a conventional narrative found in most corporate annual reports and it is parts of non-financial disclosures, otherwise called narrative accounting. It is therefore a voluntary disclosure and no specific obligatory guiding principles as to what should go into the statement exits (Deloitte, 2012). This paper further the line of research on value relevance of non-financial disclosures by testing whether the optional narrative disclosures provided in the chairman's statement are potentially investment decision-useful by examining the key words, phrases or themes in such statements that might together be systematically associated with the market value of firms’ equity.

Statement of the Problem

Non-financial disclosures are meant to complement financial measures in sufficiently communicating a firm’s performance and prospects to users of accounting reports. The ability of non-financial disclosures to fulfill this purpose have been examined by many researchers who have sought to establish the decision usefulness of non-financial disclosures by studying the relationship between diverse non-financial disclosures and the market value of equity (Dontoh et al., 2014)

However, studies on the value relevance of non-financial disclosures have yielded contradictory inferences or inconclusive findings. For example Wayne et al. (2003); Elisabeth et al. (2008); Yenpao et al. (2009) and Thomas et al. (2013) concluded that non-financial disclosures affect the value of the firm. On the other hand Alan et al. (2006); Derwall et al. (2010) and Ryngaert and Thomas (2012) concluded that non-financial disclosures has no effect on the value of the firm. The contradictory inferences...
or inconclusive findings by existing studies on the value relevance of non-financial information have also been noted by for example Aylin, Tuba and Lale (2014); Dhiaa (2012); Ibadin and Oladipupo 2015; Thomas et al. (2013) and Vijitha and Imalathasan (2014).

Further, as also noted by Dhiaa, (2012), many value relevance studies on non-financial information have been done in developed countries such as Europe and Northern America. Value relevance studies on non-financial information have neglected developing countries. Negah (2008) point out that value relevance studies on non-financial information in emerging economies are limited and therefore the impact on stock price behaviour in these economies still remains an unanswered question. In view of the contradictory inferences or inconclusive findings in the existing literature, this study sought to extend the line of research on value relevance of non-financial disclosures by determining whether the chairman’s statement have a relationship with value relevance of annual reports for listed banks in Kenya.

II. LITERATURE REVIEW

Theoretical Background

Different theories have been used in research to explain the relationship between accounting disclosures and the market value of equity from two perspectives. Firstly, to explain the corporate disclosure phenomena, that is, the consideration by insiders in an organization in choosing whether to disclose certain information to a particular group of stakeholders. Among the theories used are signaling theory and agency theory. Secondly, to explain people’s behaviour and/or people’s needs as regards to information and their use of it in equity share investment. Among the theories used are technical analysis theory and efficient market hypothesis.

The signaling theory was originally developed and used to explain information asymmetry in labour markets. According to Alvarez, Sanchez, and Domnguez (2008) a signal can be a visible action or structure used to indicate the sign of quality. Typically the sending of a signal is grounded on the basis that it should be positive to the signaler. A firm’s information disclosure can be considered a signal to capital markets, directed to reduce information asymmetry which often exists between management and stakeholders as well as to increase the firm’s value (Alvarez et al., 2008). Therefore, firms’ managers will have an incentive to disclose all positive distinguishing qualities in order to maximise their own self-interest (Campbell, Shriives, & Bohmbach-Saager, 2001). Signaling theory holds that voluntary information disclosure in corporate annual reports can be used as a signal in order to improve the corporate image, attract new investors, lower capital costs and also help to improve its relationships with the relevant stakeholders (Alvarez et al., 2008).

The agency theory is generally concerned with the principal-agent relationship between the principals (for example, owners) and agents (for example, the managers). According to Lambert (2001) conflicts of interest exist between principals and agents. The agency theory contends that firms are more likely to be transparent when agency conflicts between insiders and outsiders are larger since these conflicts lead to higher levels of information asymmetry.

The technical analysis theory is based on the argument that to make good investment decision investors need to develop a bird’s view over the market and analyze every factor as to why the stock market behaved in a certain way with tools and techniques. One of the tools that may be applied by the investor to analyze the stock market behaviour and stock price trend is technical analysis (Keerti & Gururaj, 2013). Milton (2015) observes that technical analysis is a method of evaluating securities by analysing the statistics generated by market activity. The author further notes that this is based on three assumptions: 1) the market discounts everything, 2) price moves in trends and 3) history tends to repeat itself. Technical analysis theory maintains that all information required about a stock is reflected already in the price of the stock and that Investors’ emotional responses to price movements lead to recognizable price chart patterns (Malkiel, 2003).

The efficient market hypothesis (EMH) is founded on the assumptions that new information regarding securities comes to the market in a random fashion and that investors seeking to maximize their profit amend securities’ prices swiftly to reflect the effect of new information. The efficient market is in three forms; that is weak form, semi strong form and strong form of efficiency (Fama, Jensen, Roll & Fisher 1969). Reilly and Brown (2003), observe that weak form market is a type of EMH that claims that all historical process of a stock and volume data are fully reflected in the current stock prices. Fox (2009) observe that a semi-strong efficiency is a more comprehensive level of market efficiency which besides involving market data that is publicly available, also involves all publicly known and available data. This data is fully reflected in the current price of a stock and therefore neither fundamental nor technical analysis can be used to achieve superior gains.

According to Shiller (2005) in the strong form of efficient market hypothesis, all information; be it public or private is fully reflected in the price of a security. That being the case, in the strong form efficiency level, no investor or group of investors should be able to use publicly available information in a superior manner to earn abnormal rates of returns over a reasonable period of time. Studies on value relevance of annual reports are stirred by the fact that quoted companies use annual reports as one of the major media of communication with stakeholders (Vishnani & Shah, 2008). Most value relevance studies make inferences based on the implicit assumption that the stock market is efficient in the semi-strong form. This assumption has raised substantial concerns among several researchers (for example Lee, 1999; Holthausen & Watts, 2001).
Empirical Literature Review

The chairman of the board, sometime called the president of the company always writes to the users of annual reports. So, in some firms, the chairman's statement has become known as the president's letter. Studies show that the chairman’s statement is perceived to be useful and important (ACCA, 2009). According to Stanton, Stanton and Pires (2004), available empirical research in the US has established that both the inclusion and the content of the president’s letters significantly affect the judgements of share prices in equity investment decisions.

Malcolm and Richard (2009) conducted a systematic analysis of the relationship between chairman's statement and financial performance for a matched sample of failed/non-failed companies across common industries by employing separate measures of the readability and the understandability of the chairman's statement. The study observed that there is a significant relationship between the chairman's statement and the overall financial performance. The authors further note that poor readability of chairman's statement is strongly related to poor financial performance while ease of readability of the chairman's statement is strongly related to relative financial success. The implication is that different users of annual reports consider the chairman's statement in decision making meaning it is value relevant.

In a study “Picking up the Pieces: Impression Management in the Retrospective Attributional Framing of Accounting Outcomes”, Aerts (2005) explored the impact of content characteristics of the explained effect in chairman's statements on the self-serving tendencies and also studied strong and weak motivational influences and contrast the self-serving reasoning tendencies in non – financial disclosures of listed and unlisted firms. The study concluded that the chairman’s statement and director’s report are the most commonly read information section of annual report by private shareholder, more than the statement of financial position. The research results also showed that the narratives were value relevant depending on the nature of the financial disclosures explained and on the manner in which positive news is constructed in the directors’ reports of listed companies.

Eric and Amir (1996) examined the existence of an association between the content of the chairman's statement and firm failure. The study concluded that a close association exists between the two. This implies that the chairman's statement has an impact on the ability of a firm to raise capital; therefore it affects the value relevance of annual reports.

Clatworthy and Jones (2003) focusing on the chairman's narratives of the top 50 and bottom 50 listed UK companies ranked by performance looked into whether firms in UK with declining or improving performance show different attribution patterns of chairman's statements. They classified the content of chairman's statement as good, bad, or neutral. They concluded that firms with improving performance (positive change in profit before taxation from last year) presented more good news and they were more positive in their words relative to those with declining performance. The conclusion by the study has an implication that the chairman's narrative in annual report is value relevant.

Angela, (2012) carried out study “Beyond the Numbers: Measuring the Information Content of Earnings Press Release Language” in which they examined approximately 23,000 quarterly non – financial disclosures, including chairman’s statements, published between 1998 and 2003 in the United States, (US). The net optimistic language was measured using a textual-analysis software program. The study concluded that the non – financial disclosures studied provides firms with opportunities to signal their expectations about future firm’s performance. The authors found the disclosures to be predictive of firm’s performance in future quarters and that the market significantly responded to unexpected net optimistic language. These results were interpreted to mean that market participants consider non – financial disclosures in decision making. This would mean that the non – financial disclosures are value relevant.

Bhana (2009) analyzed the chairman's statements of the top 50 and bottom 50 companies listed on the JSE ranked by percentage change in profit before taxation. The study found that chairmen use the accounting narrative in a self-serving manner, rather than reporting performance objectively. The finding implies that chairman's statements are value relevant, therefore the motivation to focus on positive aspects.

However, some studies have concluded or implied that the chairman’s statement does not have a relationship with the market value of equity. Stanton et al. (2004) carried out a study to establish whether the perceptions of readers of a firm’s chairman's statement differed depending on their assigned reading. Four similar groups were rated after completing their reading task, but no significant differences were found. It was concluded that the chairman's statement does not impact on the usability of annual reports in decision making. This implies that the statement is not value relevant. Rowbottom and Lymer (2009) rank the chairman’s statement fourteenth, seemingly signaling a relegation of perception of this item in the minds of annual report readers.

It is notable that evidence on the usefulness of the chairman’s statement and its relationship with value of firms is mixed or in some cases inconclusive. The alternative hypothesis for this study states that the chairman’s statement has a significant relationship with the value relevance of annual reports for listed banks in Kenya.

III. RESEARCH METHODOLOGY
This study adopted a survey research design. The study population was the eleven banks listed on the Nairobi Securities Exchange at the time of this study. Ten banks listed on the Nairobi Securities Exchange over the entire period of study were studied. Primary data was collected through survey questionnaires which were administered on the respondents who were financial analysts from sixty one firms (investment banks, stock brokers, fund managers and investment advisers) licensed by the Capital Markets Authority of Kenya as at 30 April 2016. The desk study method was used for secondary data which was obtained from the corporate action register and from the Nairobi Securities Exchange handbook, the daily market statistics from the NSE data and annual reports of the banks.

Sixty annual reports by the ten banks listed at the NSE over the entire period from year 2010 to year 2015 were studied. Data collection tool comprised of a tabular checklist which was used to collect data on the average market prices of the firms’ shares and data on the chairman’s statement included by the firms in their annual reports. The market price of the firms’ shares was obtained from the daily market statistics from the NSE data. From the corporate action register and the Nairobi Securities Exchange handbook, the date when annual reports were released for each year from 2010 to 2016 (for the period covered by the annual reports of years 2010 to 2015) was obtained. From the release date of a period’s annual reports to the date of release of the subsequent period’s annual reports, the closing weekly market price per share was obtained as recorded in the NSE market statistics data. The average market price per share, calculated by dividing the aggregate market price per share with actual number weeks, was then filled in the checklist.

Content analysis was based on frequency of pre-determined words. According to Thomas, Céline, and Ludwig (2013) providing information on a specific topic in annual reports entails the use of related words more often. For example, reporting on social responsibility entails words as donations, citizenship, social and communities. Reporting on risk entails words as danger, exposure, liability, opportunity and possibility. Based on this, observation of a distinct group of words in a disclosure can be taken as an indicator of the provision of specific information. Building on this perspective, an index to measure the information of interest in the chairman’s statement using frequency of pre-determined words was developed.

Words (in order of relevance) relating to chairman’s statement as itemized by Robb et al. (2001) in an analysis based on the 1994 Jenkins Committee report, were determined using OneLook dictionary. In an attempt to reduce the amount of data, only the first two hundred and fifty words were used. Content analysis program ATLAS.ti 8 was then used obtain a list of the words and their frequencies used in a total of sixty chairman’s statements, in the annual reports of ten banks from year 2010 to year 2015. Ms Excel 2007 was then used to validate the ATLAS.ti 8 output against the OneLook dictionary list. In line with prior research that has identified word frequency as a sign for cognitive centrality (Duriau et al., 2007 and Abrahamson and Hambrick, 1997) the aggregate of frequencies of the ten most used relevant words (as per the OneLook dictionary list) was then entered in the checklist for each item.

The study sought to test the following hypothesis:

\[ H_0: \text{Chairman's statement does not have a significant relationship with the value relevance of annual reports for listed banks in Kenya} \]

The regression model used is:

\[ MV_i = \beta_0 + \beta_1X_i + \varepsilon \]

Where:

- \( MV \) = Market Value of Equity
- \( X \) = Chairman’s Statement disclosure
- \( \beta_1 \) = the coefficient of \( X_i \) for \( i=0,1... \)
- \( \varepsilon \) = Random "error" assumed to have a N (0, \( \sigma^2 \)) distribution

IV. ANALYSIS, FINDINGS AND DISCUSSIONS

The study used average market value per share to measure the value-relevance of annual reports which was the dependent variable. The independent variable was chairman’s statements included in the annual reports. This section contains results, presentation and discussion.

Descriptive Analysis

The study computed the descriptive statistics of the secondary data on study variables. These included mean, standard deviation, minimum and maximum.

Table 1: Descriptive Statistics of the Study Variables (Secondary Data)

<table>
<thead>
<tr>
<th>Variable</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman's statement</td>
<td>Mean</td>
<td>54.40</td>
<td>59.80</td>
<td>54.40</td>
<td>68.30</td>
<td>67.20</td>
</tr>
</tbody>
</table>
Five statements relating to chairman’s statement were presented to the respondents. The descriptive results of the responses are presented in Table 2.

### Table 2: Descriptive Results of Chairman’s Statement Disclosure (Primary Data)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of current year performance on shareholder value</td>
<td>4.9%</td>
<td>7.8%</td>
<td>30.4%</td>
<td>20.6%</td>
<td>36.3%</td>
<td>3.75</td>
<td>1.17</td>
</tr>
<tr>
<td>Changes to the board and senior executives</td>
<td>5.9%</td>
<td>5.9%</td>
<td>33.3%</td>
<td>26.5%</td>
<td>28.4%</td>
<td>3.66</td>
<td>1.13</td>
</tr>
<tr>
<td>Significant developments in the governance arena</td>
<td>3.9%</td>
<td>4.9%</td>
<td>30.4%</td>
<td>27.5%</td>
<td>33.3%</td>
<td>3.81</td>
<td>1.08</td>
</tr>
<tr>
<td>Overall firm strategy and why</td>
<td>3.9%</td>
<td>2.0%</td>
<td>40.2%</td>
<td>29.4%</td>
<td>24.5%</td>
<td>3.69</td>
<td>0.99</td>
</tr>
<tr>
<td>Changes in financial position</td>
<td>8.8%</td>
<td>2.0%</td>
<td>26.5%</td>
<td>34.3%</td>
<td>28.4%</td>
<td>3.72</td>
<td>1.16</td>
</tr>
</tbody>
</table>

The study sought to find out the respondents’ view on the statement that disclosure of the impact of current year performance on shareholder value by chairmen of listed banks in their statements was important for decision on investment in their shares. The findings showed that this statement had a mean response of 3.75 to the affirmative meaning that most the respondents were in agreement (20% agreed and 36.3% strongly agreed). The respondents who indicated they were neutral to this statement were 30.4% while a total of 12.7% either disagreed or strongly disagreed.

The study also sought to find out from the respondents what they think of the claim that disclosure of changes to the board and senior executives in the annual reports of listed commercial banks was important for investment decision. The findings revealed that 28.4% and 26.5% of the respondents strongly agreed and agreed respectively. Further, to the statement that disclosure of significant developments in the governance arena in the annual reports of the listed banks was important for investment decision, majority of the respondents agreed and strongly agreed as indicated by the mean of 3.81 to the affirmative.

In addition, the study sought to find out what position respondents held on the statement that disclosure of the overall firm strategy by chairmen of listed banks in their statements was useful for decisions on investments in banks’ shares. 53.9% of the respondents were in agreement (24.5% strongly agreed, 29.4% agreed). 40.2% were neutral while at total of 5.9% either disagreed or strongly disagreed. Further, on what was the respondents’ view on the statement that chairmen’s disclosure of overall firm strategy and changes in financial position and why, was useful in making decisions on investment in their shares, the results showed that the statement had mean response of 3.69 to the affirmative and a standard deviation of 0.99. These findings implied that most of the respondents agreed with the statement (24.5% strongly agreed and 29.4% agreed).

In General, the findings presented in Table 2 implied that chairman’s statement in the annual reports of listed banks in Kenya is an important disclosure and the information therein is of value to investors. This information includes yearly performance, board and senior executives, significant developments in the governance arena, overall firm strategy and changes in financial position. This finding agree with Aerts (2005) who in a study “Picking Up the Pieces: Impression Management in the Retrospective Attributional Framing of Accounting Outcomes” concluded that the chairman’s statement and director’s report are the most commonly read information section of annual report by private shareholder, more than the statement of financial position.

### Trends of Chairman’s Statement Disclosures and Market Price of Shares

Quantitative values to measure chairman’s statement included in the annual reports of the ten banks listed on the NSE over the entire period under study was derived using content analysis program ATLAS.ti 8, OneLook dictionary version 2.0 and Ms Excel 2007 as described in the research methodology section. From the data a trend for chairman’s statement was plotted together with...
that of average market price per share (MPS) to establish the how chairman’s statement has been changing over the period of the study and its relationship with the average MPS trend. The plots are presented in figure 1.

Figure 1: Trends of Chairman’s Statement and Average Market Price of Shares

The results presented in the figure 1 showed that changes in the average market price per share were largely proportional to changes in chairman’s statement. The finding implied that there was positive relationship between chairman’s statement and average market price per share.

Inferential Statistics Results

This section present results of the correlation and regression analysis. Before proceeding with the analysis, several diagnostic tests were carried out to test how well the data fitted in the model. All the inferential statistics were conducted using the secondary data.

Diagnostic Tests

The study performed tests on statistical assumptions, that is, test of regression assumption and statistic used. This included test of normality, heteroskedasticity, multicollinearity, autocorrelation, panel unit root test and Hausman test for model specification. The tests were conducted to make sure that the statistical analysis conducted adhered to regression assumption hence avoid spurious and bias findings. The findings are presented in table 3

Table 3: Diagnostic Tests Results

<table>
<thead>
<tr>
<th>Diagnostic Tests Results</th>
<th>Test Used</th>
<th>Criterion</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normality Test</td>
<td>K-S test</td>
<td>p&gt;0.05</td>
<td>Data was normally distributed</td>
</tr>
<tr>
<td>Homoscedastic Test</td>
<td>Breusch and Pagan (1979)</td>
<td>p-value is greater than 0.05</td>
<td>Null hypothesis was accepted and concluded that there was homoscedasticity</td>
</tr>
<tr>
<td>serial Autocorrelation</td>
<td>Breusch–Godfrey test</td>
<td>p&lt;0.05</td>
<td>Residuals are not auto correlated (p-value=0.0001)</td>
</tr>
<tr>
<td>Multicollinearity</td>
<td>VIF</td>
<td>VIF&lt; 10.0</td>
<td>No threat of multicollinearity</td>
</tr>
<tr>
<td>Hausman test</td>
<td>Chi-Square</td>
<td>p&gt;0.05</td>
<td>Prob&gt;chi2 = 0.8675, therefore null hypothesis that</td>
</tr>
</tbody>
</table>
Correlation Results

This section contains results of correlation tests conducted to test the association between the independent variable and the dependent variable. According to Kothari (2014) the importance of correlation is to determine the extent to which changes in the value of an attribute is associated with changes in another attribute. This study used correlation to test the association between the independent variable and the dependent variable.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Chairman’s statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.402</td>
</tr>
<tr>
<td>N</td>
<td>60</td>
</tr>
</tbody>
</table>

The results presented in table 4 showed that chairman’s statement had a correlation value $r= 0.402$ and $p$-value=$0.003$. The finding indicated a weak positive association between chairman’s statement and average market price per share. These results implied that positive change in the chairman’s statement could lead to a positive change in the average market price per share hence the value relevance of annual reports. Authors such as Stanton, Stanton and Pires (2004), and Smith and Taffler (2000) also observed that chairman's statement is an important content of the annual report whose content influences decision making.

Regression Analysis Results

The study used univariate regression analysis to test the effect of the independent variable on dependent variable. Results in the table 3 indicates a prob$>\chi^2$ value of 0.8675 which is greater than critical $p$ - value at 5% level of significance. This implies that the null hypothesis that a random effect model is the best was not rejected. The study hence used a random effect regression model to ascertain the relationship between chairman’s statement and average market price per share (MPS). The findings are presented in table 5.

**Table 5: Chairman’s Statement and Average MPS**

| Average MPS     | Coef.   | Std. Err. | z      | P>|z| |
|-----------------|---------|-----------|--------|------|
| Chairman’s statement | 0.445159 | 0.13323   | 3.34   | 0.001|
| constant         | 47.71742| 21.86169  | 2.18   | 0.029|

Wald $\chi^2$ (1) = 11.16
Prob $>\chi^2$=0.0008
R-squared = 0.1905

The findings revealed a Wald $\chi^2= 11.16$ and Prob $>\chi^2=0.0008$ which implied that the model Average MPS = 47.71742 + 0.445159 (Chairman’s Statement) + $\epsilon$ was statistically significant. The findings further revealed an R-squared = 0.1905 meaning 19.05% of the variation in average MPS was accounted for by the chairman’s statement. The results on the beta coefficient of the resulting model showed that the constant, $\alpha = 47.71742$ which was significantly different from 0, since the $p$ - value = 0.029 was less than 0.05. The coefficient $\beta = 0.445159$ was also significantly different from 0 with a $p$-value = 0.001 which was less than 0.05.

The results imply that a unit change in chairman’s statement will result in 0.445159 units change in average market price per share. This confirms that there is a significant positive relationship between the chairman’s statement and the average market price of share of the listed bank in Kenya. The finding further showed the chairman’s statement has a positive influence on value relevance of annual reports as measured by average market price per share. Authors such as Stanton, Stanton and Pires (2004), and Smith and Taffler (2000) also observed that chairman's statement is an important content of the annual report whose content influences decision making.

V. CONCLUSION
The findings of this study established that chairman’s statement had positive and significant effect on value relevance of annual reports of listed banks in Kenya. Based on the findings, the study concluded that chairman’s statements included by firms in their annual reports improve the perception of investors and impacts on the value relevance of annual reports.

VI. RECOMMENDATIONS

The study observed significant explanatory power of chairman’s statement on value relevance of annual reports. Inclusion of chairman’s statement by a firm in its annual reports improves the perception of investors and impacts on the value relevance of annual reports. The chairman’s statement is indeed important to investors and other users. Currently in accounting reporting, the auditor is not obliged to formally audit the chairman’s statement and other non-financial disclosures. Instead, the auditor just review the accounting narratives to ascertain if the narratives are consistent the financial statements. This study recommends an expanded role of the auditor in reviewing the chairman’s statement and other accounting narratives. The study also recommends more guidelines and regulations in relation to non-financial disclosures to ensure that firms put clearer information about their operating and financial outlooks in the hand of investors.

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