European Journal of Business and Social Sciences, Vol. 5, No. 06, **September 2016.** **P.P. 167 - 184**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

EFFECT OF VOLUNTARY DISCLOSURE ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA. A STUDY ON SELECTED BANKS IN RWANDA

Isaac Nyachio Achoki

Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

Julius Warren Kule (PhD)

Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

Dr. Jaya Shukla

Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

ABSTRACT

Voluntary disclosure represents one of the pillars of corporate governance. Numerous scandals have occurred worldwide due to lack or improper corporate disclosures. It has been argued that managers should voluntarily disclose information that would satisfy the needs of various stakeholders. Voluntary disclosure is aimed at providing a clear view to stakeholders about the business's long-term sustainability and reducing information asymmetry and agency conflicts between managers and investors. The main objective of this study was to investigate the effect of voluntary disclosure on the financial performance of commercial banks in Rwanda. To achieve this the study examined general and strategic disclosure, financial disclosure, forward looking disclosure, social board disclosure as a proxy for measuring voluntary disclosure and firm characteristics and how they affect the financial performance of commercial banks in Rwanda. Firm performance was measured using Return on Equity (ROE). This study adopted a descriptive research design. The study took a sample of 14 commercial banks in Rwanda. Census approach was used to determine the sample size. Data was collected through developing a disclosure index consisting of 47 disclosure items. Secondary data was collected using documentary information from Banks annual accounts for the period 2011 to 2015. Data was analyzed using a multiple linear regression model. Results revealed that a strong relationship exist between the voluntary disclosure, firm size and financial performance. The study found a positive relationship between financial, forward looking and board and social disclosure and return on equity. A 1% increase in financial disclosure leads to a 54% increase in financial performance of commercial banks, while a 1% increase in forward looking disclosure leads to a 33.9% increase in return on equity and a 1% increase in board and social disclosure leads to a 50.3% increase in return on equity. On the other hand, the study found a negative relationship between general & strategic disclosure and return on equity. This means that a 1% increase in strategic disclosure leads to a 20.2% decrease in return on equity of a firm. The study concluded that firms should lean towards disclosure of financial and social board disclosure to increase their performance. This relationship is expected as firms disclose more its information asymmetry reduces which reduces cost of capital. The study recommends more study on the role played by voluntary disclosure on other sectors like agriculture to enrich the study in Rwanda.

Key words: Voluntary disclosures, General and strategic disclosure, financial disclosure, forward looking disclosure, social board disclosure

1.0 Background.

Financial reporting and disclosures by management are the primary methods of keeping investors informed about corporate performance. Corporate disclosures of financial information are a means of communicating a firm's financial performance to outside investors and capital markets (Abraham & Tonks, 2006). Transparency and disclosure represent one of the pillars of corporate governance. Several scandals have occurred worldwide due to lack or improper corporate disclosures. Different stakeholders use corporate disclosure in their decision-making process (Shehata, 2013). For any informed financial decision to be made by an investor, information is required. The main sources of such information include the financial statements of the company (Verrecchia, 2001).

Much of the literature on voluntary disclosure in accounting considers the economic based models of disclosure by seeking to link financial reporting to economic consequences (Guillaume 2007). Prior research shows that annual report is the main source of mandatory and voluntary corporate disclosures (Maina 2014). Companies listed in the securities exchange market mainly make voluntary disclosures in their annual reports to attract foreign investors and also encourage local investors to trade in their shares in order to enhance the company's return.

Empirical evidences suggest that increased information disclosure reduces a firm's cost of capital by reducing information asymmetry (Botosan 2000). Also with the information provided, the investors are able to predict return on investment given the trends in the market. The stock returns of an investor's investments in the stock market are affected by the financial information provided by the management (Guillaume, 2007).

Disclosure is defined in the accounting literature as informing the public by financial statements of the firm (Agca & Onder 2007). Voluntary disclosure refers to disclosure of information regarding the organization up and beyond the statutory requirements (Asava, 2013). The practice of voluntary disclosure has attracted a lot of attention from researchers. Meek et al. (1995) define voluntary disclosures as free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports. They go ahead and classify voluntary disclosures as strategic, non-financial and financial information. They classify the disclosures depending on what they are intended for and the contents of such disclosed information. Since the management know more about the company than the shareholders, customers, suppliers, creditors, and government regulators including capital market authorities (Feng & Li, 2007). The management finds it useful to inform the outsiders what they know about the company.

Disclosed financial information is essential for investors to efficiently allocate scarce resources (Cooke, 1989), and assess investment options (Gray, Meek, Roberts, 1995). Firms usually report according to two dominant standards; Generally Accepted Accounting Principles (GAAPs) and International Financial Reporting Standards (IFRS). From the investors' perspective, these standards do not provide all the necessary information and as a result there are some deficiencies (Schuster & O'Connel, 2006). Voluntary disclosures results in increased transparency and decreased asymmetry. Agency costs are a consequence of information asymmetry and arise when investors undervalue the firm due to insufficient information (Guillaume, 2007). Increased transparency shows the true value and makes investors more willing to invest (Leuz & Verrecchia, 2000).

The key aim of voluntary disclosures is to inform the public more about the company. In turn, the management hopes that the stakeholders of the company will respond favorably to the company. Whether strategic, non-financial or financial voluntary disclosures, Meek, Roberts and Gray (1995) postulates that most organizations gain some benefits by virtue of disclosing more than is expected if the issued information is strategically availed to the important parties who are likely to act in favor of the company. The disclosures are sometimes not periodic while others are periodically released including voluntary disclosures released together with annual reports of an organization (Asava, 2013).

Financial Accounting Standards Board (FASB) classifies voluntary disclosures into 5 categories as: (i) Business data, (ii) Analysis of business data e.g. Trend analysis and comparisons with competitors, (iii)Forward-looking information e.g. Sales forecast breakdown and plans for expansion, (iv) Information about management and shareholders e.g. Information on stockholders and Shareholding breakdown and (v) Company background e.g. Product description and long-term objectives.(FASB Annual Reports, 2013)

In business activities, investors require timely and correct information to reach effective investment decisions. This kind of information can be collected through many ways, and one of the most important resources is the corporations‟ annual reports. The most important role of annual reports is to provide relevant, useful and reliable financial information to investors, shareholders and other interested people about the financial position and performance of the business as well as its future prospects to help users in decision-making, (Yuen et al., 2009).

The information that has been supplied by annual reports towards their stakeholders includes two types: compulsory and voluntary information and compulsory disclosure is of more importance. Mandatory disclosure is a basic market demand for information that is required by various laws and regulatory bodies and has been ruled at national or regional level through professional organizations or government authorities. On the opposite, corporate voluntary disclosure, being in excess of requirements, represents frees choices on the part of managers to provide information to users of the annual reports (Yuen et al., 2009). This voluntary information is disclosed to satisfy the users‟ needs that seem to be inadequately supplied by the mandatory disclosure.

Generally, disclosure is done in company annual reports either through the statements or notes accompanying the statements. Although other means of releasing information, such as interim reporting, letters to shareholders and employee reports, are used by the companies, the annual report is considered to be the major source of information to various user-groups. Nevertheless, all parts of the annual reports are not equally important to all users. Income statement is believed to be the most preferred sections to investors while cash flow statement and statement of financial position are most useful sections to bankers and creditors (Ho & Wong, 2001).

Likewise, users of accounting information weight audit reports, directors‟ reports, accounting policies and historical summary differently. The annual report should contain information that will allow its users to make correct decisions and efficient use of limited resources. Companies provide information on the ground that such disclosure will not respond to the negative impact on the company image.

Many studies reveal that organizations operating in industries highly dependent on external financing have a considerably higher level of voluntary accounting disclosures (Velashani & Mehdi, 2008). They further realized that the results were still up-held after controlling for differences in legal and financial systems amongst countries, and firm specific controls for firm size and performance. The findings revealed that organizations with relatively higher levels of disclosure usually have lower costs of capital (Walter 2006). Therefore, voluntary disclosures lower information asymmetry costs and hence the cost of external financing for the firm.

Notably, transaction costs reflected in the bid-ask spread should reduce as information asymmetry reduces. Marilyn & Heibatollah (1994) stated that accounting disclosure reduces the bid-ask spread as a proxy of transaction costs. Further, Christine (1997) also revealed that cost of equity capital is reduced in firms with relatively higher levels of disclosures. In her studies, companies with relatively more analyst reports had lower costs of equity capital. Partha (1998) noted that companies which were ranked highly by financial analysts had lower interest costs of issuing debts.

It is the economic benefits that encourage the managers to provide more information to the public through voluntary exposure. Also, since regulatory disclosures do not succinctly reflect the management performance, the management engages in voluntary disclosure to say more about the company. In turn, the stakeholders get to know more about the company, while reducing the costs of capital. There is an overall economic benefit for companies and the capital market since the cost of raising capital is reduced. The Rwandan laws allow for self-assessment. Here the tax administration trusts that the taxpayer declare what is truly right. The law again allows for voluntary disclosure where the taxpayer at any time before audit can make a rectification adjustment on declarations previously submitted in order to avoid mistakes and eventual penalties.

To achieve this, the researcher was stimulated to carry out the study on the effect of voluntary disclosure on commercial banks in Rwanda.

1.1 Statement of problem.

Globally, voluntary disclosure in the annual reports and in other information media has been one of the rapidly growing research areas in the accounting and finance fields (Haw *et al.* 2004). From literature review, it is evident that past studies have been concentrating on establishng the relationships between corporate governance and voluntary disclosures and factors influencing the extent of voluntary disclosures (Matengo 2008). In this, factors such as International Financial Reporting Standards and country regulatory framework have played an important role in enhancing the quality of disclosure (Asava 2013). However, Studies by scholars such as Haw et al. (2004) have shown that inadequate transparency by international organizations, national government units and private sector entities continue to be experienced despite the adoption International Financial Reporting Standards by companies. Perhaps companies need to provide more detailed information voluntarily without limiting to regulatory requirement. Voluntary disclosure is aimed at providing a clear view to stakeholders about the business's long term sustainability and reducing information asymmetry and agency conflicts between managers and investors (Healy & Palepu, 2001).

In reviewing disclosure literature, it can be noticed that voluntary disclosure practices are also affected by several factors which include firm size, age, profitability, independent directors, audit committee, board size, board leadership structure, ownership structure, leverage, family control and listing status. However, the existing evidence is inconclusive and hence there is need for more studies to provide research evidences in this context.

Again, since earlier studies have evaluated the extent of voluntary disclosure made by corporations in many developed countries, emerging capital markets such as that of Rwanda present a different landscape from those of developed countries in that they have high growth potential, relatively weak regulatory environment, weak corporate governance leading to expropriation of minority shareholders, and low information disclosure level causing high information gap between managers and investors. Thus, research studies about these markets are needed and are vital in improving the weak transparency and disclosure situation by attracting the attention of regulatory bodies and firm managers (Alsaeed, 2006)

Other researchers elsewhere have linked causality between quality voluntary disclosures and stock returns and in turn the stock market performance. Yet again, some have had conflicting results. Since voluntary information disclosures have a cost implication, there is a need to establish whether voluntary information disclosures impact the performance of commercial banks. Hence the question that really begs is the effect of voluntary disclosures and the performance of the commercial banks in Rwanda.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to determine the relationship between voluntary disclosure and financial performance of commercial banks in Rwanda.

1.3.2 Specific objectives

The study was guided by the following specific objectives:

1. To determine the effect of general and strategic information disclosure on the financial performance of banks in Rwanda
2. To investigate the influence of forward looking information on the financial performance of banks in Rwanda
3. To examine the effect of social and board disclosure on the financial performance of banks in Rwanda
4. To determine the effect of financial disclosure on the financial performance of banks in Rwanda

2.0 Literature Review

2.1 Empirical review

Barako (2007) studied the determinants if voluntary disclosure in Kenya companies' annual reports. The study examined factors associated with voluntary disclosure of four types of information: general &strategic, financial, forward looking and social and board information in annual reports for Kenya from the year 1992-2001. The main theory outlined in the study was the agency theory. A disclosure index was constructed and ordinary least square method used. The findings were that board leadership structure, foreign ownership, institutional ownership and firm size significantly affect the level of disclosure.

Hossain (2003) studied the extent of disclosures in annual reports of banking companies in India. The objective of the study was to investigate the level of disclosure both mandatory and voluntary done in banks. The results stated that banks were compliant with the rules regarding mandatory disclosure however are far behind in disclosing voluntary items. It was also noted that size, profitability and board composition and market discipline were significant in explaining the level of disclosure while age of a firm, complexity of the firm and assets in place were not significant in explaining level of disclosure. The study constructed a disclosure index for 23 banks annual reports.

Aksu and Kosedag (2005) investigated the relationship between transparency and disclosure and firm performance in the Istanbul stock exchange with a sample of 52firms. The objective of the study was to associate T&D scores to return on equity and market based performance measures. The findings were that Turkish firms have higher financial disclosure but lower board disclosure and also there exist a positive relationship between T&D scores and financial performance of the firms. The study used a transparency and voluntary disclosure score to carry out this research.

Matengo (2008) studied the relationship between corporate governance practices and financial performance of banking industry in Kenya. The objective of the study was to determine the relationship between corporate governance practices and performance among commercial banks. A sample of 45 banks was taken and corporate governance determinants were measured using a questionnaire while financial performance was measured using the CAMEL model. The findings were that transparency significantly affected firm performance while disclosure and trust did not show a significant relationship.

Haggard, Martin and Periera (2008) investigated whether voluntary disclosure improve stock price in formativeness. The objective of the study was to find the relationship between stock price and voluntary disclosure. Disclosure in this case was measured using the annual reviews if corporate reporting practices (ARIMA scores). The findings were that there exists a negative relationship between stock prices and voluntary disclosure.

Lishenga and Mbaka (2002) Studied on compliance with corporate disclosure and firm performance for Kenyan firms a sample of 35 listed companies was taken. The objective of the study was to establish a link between corporate governance index and performance of listed company. The theories stated in the paper were: Agency theory, transaction cost economics, stakeholder theory, stewardship theory, class hegemony theory, managerial hegemony theory. Firm performance was measured using Tobin Q and ROA while corporate governance was measured by corporate governance index and disclosure was measured by firm size, board size, profitability and age of a firm. The study concluded that firm size and age were negatively related to performance while board size showed insignificant relationship and corporate governance index showed a positive relationship with performance.

Lang and Luncholm (1993) investigated on the cross- sectional determinants of analyst ratings of corporate disclosure. The objective of the study was to find out the determinants of disclosure and investigate the relationship between disclosure, firm size and firm performance. The study was carried out on 27 industries and descriptive statistics was used in the study. Disclosure was measured by the financial analyst and federation reports (FAF). The study concluded that there existed a positive relationship between firm performance, firm size and disclosure level.

Stanwick (1998) studied on the relationship between corporate social disclosure and organizational size, financial performance and environmental performance. The objective of the study was to examine the relationship between corporate social performance of the organization and the three variables; the size of the organization, the financial performance of the organization and the environmental performance of the organization.

Data was collected from 1987 to 1992 and descriptive design was used. A corporate reputation index was constructed. The findings were that social performance was indeed impacted by the size of the firm, the financial performance of the firm and amount of pollution emissions released by the firms.

Chow and Wong-Boren (1987)15made an attempt to know the voluntary financial disclosure practices of 52 listed Mexican Corporations and whether the extent of disclosure was related to firm's size, financial leverage and the proportion of the assets in place. Using a questionnaire consisting of 24 informational items, he asked 106 loan officers of 16 Mexican Banks to indicate on a seven-point scale, the importance they placed to each item in evaluating an average loan application. In the study, both the weighted and unweighted disclosure scores were measured and it was shown that the correlation between the two scores was statistically significant. The study concluded that the extent of disclosure was significantly associated only with the size variable. This study differs from the other studies that it has considered both the weighted and the unweighted scores in analyzing the disclosure practices of companies in a non-Anglo- American country. However, it has some limitations. First, the authors asked the bank officers to give weights to various items of information. They have not considered the prime users of the annual reports, i.e., the shareholders, for this purpose**.** There may be difference in the items of information as perceived by shareholders and the bank officer's importance of the Second, their index of disclosure was not very comprehensive; the authors have not considered even the price level adjusted statements, human resource accounting, social accounting, etc. which are much discussed issues incorporate reporting.

2.2 Conceptual Framework

Conceptual framework is a schematic presentation which identifies the variables that when put together explains the issue of concern (Peters, Elmendorf, Kandola & Chellaraj, 2000). It is a set of broad ideas used to explain the relationship between the independent variables (factors) and the dependent variables (outcome) (Coulthard, 2004). In this study the dependent variable is Banks financial performance while the independent variables are financial disclosure, forward looking, strategic disclosures and social and board disclosure. The variables and their relationship are shown in the Figure 1 below:

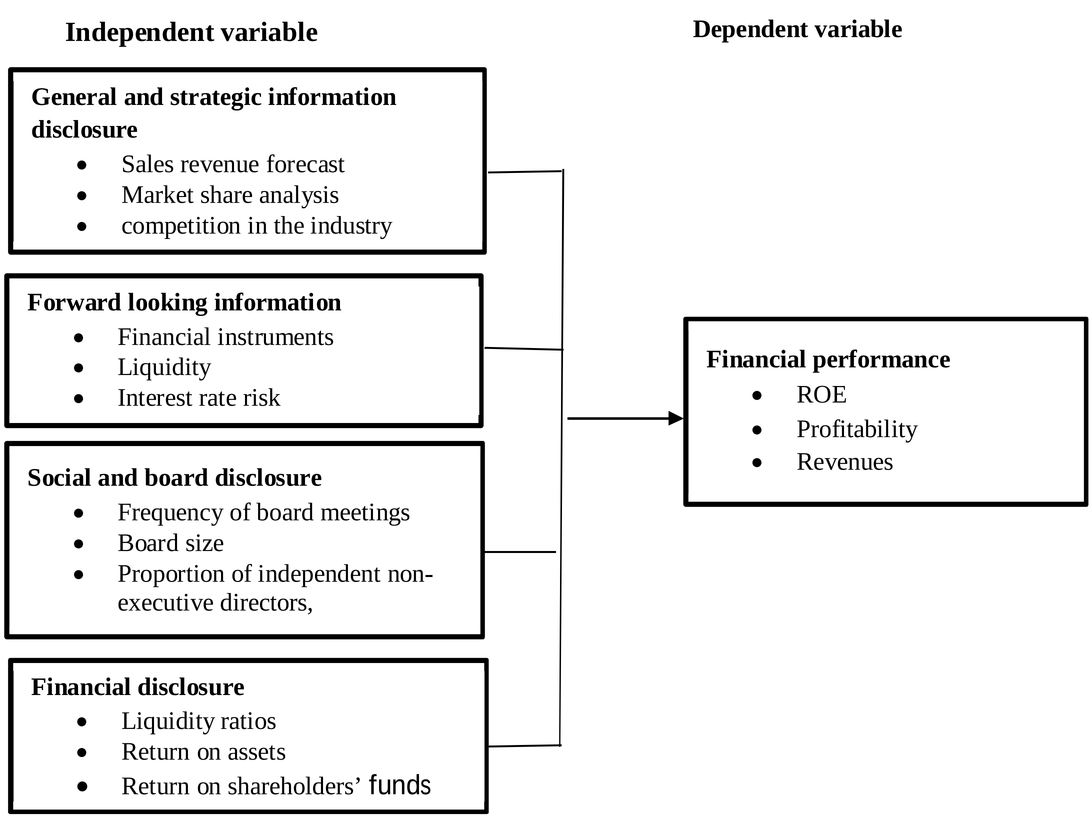

Figure 5: Conceptual framework

2.4.1 General and strategic information disclosure

The brief history of the company, ownership structure, company values, ethical issues, principal company products and an overview of the general economic outlook are some of the general information that can be disclosed in the annual statements of a company. Strategy is an administrative technique to achieve results consistent with the mission and goals of the organization (Wright, Kroll & Parnell, 1998). To be effective, strategy must be clear, focused and should define the competitive priorities adopted by a company

Despite its relevance for investors, the disclosure of a company's strategy may represent a cost, as it can potentially reveal proprietary information. In this sense, companies have to choose to what extent they want to reveal their strategy. On the one hand, investment analysts and individual or institutional investors need information to evaluate a company's potential for generating value. On the other hand, competitors may benefit from information disclosed and anticipate a company's strategic moves.

2.4.2 Forward looking information

Forward looking information refers to business predictions about the future of the business state of affairs that eventually provide shareholders with useful information about the company's future prospects; this can be found in the company chairman's report. Company shareholders frequently question the management about the future prediction of the company in the sense that what is going to happen to the company in the future. It is obvious that the management cannot predict or gives a certain answer to what is going to happen to the company in the future; but they are in a good position to observe most recent market trends and then present the shareholders with explanations about what the company is proposing or intending to do.

2.4.3 Social and board disclosure

As the world economy becomes more integrated, firms face increasing pressure to disclose their corporate social responsibility (CSR) information over the last few decades (Hooghiemstra, 2000). It is reported that more than half of the Fortune 1,000 firms regularly issue CSR reports (Jo & Kim, 2008). Consequently, corporate social responsibility disclosure (CSRD) has attracted considerable research interests since the 1980s (Bewley & Li, 2000).

Existing studies suggest that CSRD may bring reporting firms at least two advantages. First, it may enhance corporate reputation through gaining trust and support from various stakeholders (Woodward, Edwards and Birkin, 1996). Second, it is helpful to assess the congruence between the social value implied by corporate activities and social norms (Dowling & Pfeffer, 1975). Information disclosure is closely associated with the social and economic environment, and thus, different social-economic institutions may influence the pattern and level of CSRD.

2.4.4 Financial disclosure

Understanding of financial statements by the relevant users is facilitated by the financial disclosure of such information by companies. Financial disclosure is the release of financial information to the public and generally takes the form of mandatory or voluntary disclosure. (Glautier,1986). Financial disclosure by any company is purposely released so as to provide the relevant stakeholders with information that would enable them make investment decisions about the company. Disclosure is the timely provision of relevant information that results in a transparent and accurate picture of a corporate operations, financial performance, and governance.

3.0 Research design

This study adopted a descriptive survey. Descriptive survey research design is a scientific method which involved observing and describing the behavior of a subject without influencing it in any way (Bryman, 2001). It is designed to gain more information about variables within a particular field of study. Its purpose is to provide a picture of a situation as it naturally happens (Burns & Grove, 2007). The objectives are stated clearly and a clear definition of the population is given. The instruments for data collection were tested for validity and reliability which is necessary for descriptive studies (Kothari, 2004).

3.1 Target population.

The target population for this research comprised of fourteen commercial banks licensed by National Bank of Rwanda (BNR). From each bank three top managers were selected. This is because they are the only people in the bank allowed to provide copies of the annual reports of their respective banks. These included the managing director, finance manager and operations manager. Therefore, the target population was 42 top managers.

3.2 Sample size sample frame

The study comprised of a sample of 14 commercial banks as licensed by National Bank of Rwanda (BNR). Census approach was applied in this study to determine the fourteen commercial banks. The researcher utilized information from 14 commercial banks since they are the only one licensed and have been operational for the period of study. Three micro finance banks were excluded because in the ranking of BNR they are still under Microfinance limited.

The sample size of three top managers was selected. These included the managing director, finance manager and operations manager. The sample frame for this study is shown in the Table 1

Table 3: Sampling Frame

Area of Operation	Population
Managing directors	14
Finance managers	14
Operations managers	14
Total	**42**

4.0 RESEARCH FINDINGS AND DISCUSSIONS

4.1: General and Strategic Information Disclosure

Analysis of the reports from the year 2011 to 2015 revealed that Equity bank had the lowest percentage (31%) in terms of general and strategic information disclosure. Bank of Kigali and Rwanda Development Bank had the highest percentage (62%) in terms of general and strategic information disclosure. From the descriptive statistics above it is evident that the highest level of disclosure done by commercial banks is in Bank of Kigali and Rwanda development bank while the lowest is Equity bank. The percentages were determined on the bases of a bank disclosing an item of information in its annual report, then ‘1’ was awarded and if the item is not disclosed, then ‘0’ was awarded. This approach is also referred to as dichotomous scoring scheme.

Table 2: Items used on general strategic disclosures

		2011	2012	2013	2014	2015
i.	Information relating to the general outlook of the economy	42.8%	42.8%	42.8%	42.8%	42.8%
ii.	Company’s mission statement	100%	100%	100%	100%	100%
iii.	Brief history of the company	85.7%	85.7%	85.7%	85.7%	85.7%
iv.	Organizational structure/chart	100%	100%	100%	100%	100%
v.	Description of major goods/services produced	78.5%	78.5%	78.5%	78.5%	78.5%
vi.	Description of marketing networks for finished goods/services	35.7%	35.7%	35.7%	35.7%	35.7%
vii.	Company’s contribution to the national economy	21.4%	21.4%	21.4%	21.4%	21.4%
viii.	Company’s current business strategy	50%	50%	50%	50%	50%
ix.	Likely effect of business strategy on current performance	0%	0%	0%	0%	0%
x.	Market share analysis	50%	50%	50%	50%	50%
xi.	Disclosure relating to competition in the industry	7.1%	7.1%	7.1%	7.1%	7.1%
xii.	Discussion about major regional economic developments	14.2%	14.2%	14.2%	14.2%	14.2%
xiii.	Information about regional political stability	0%	0%	0%	0%	0%

From Table 2, most banks disclosed Company’s mission statement and organization structure/ chart 100%. Brief history of the company was disclosed at 85.7%. Description of major goods or services produced was disclosed 78.5%. Company’s current business strategy was disclosed 50%. Discussion about Likely effect of business strategy on current performance and Information about regional political stability were never disclosed.

4.2 Forward Looking Information

Analysis of the reports from the year 2011 to 2015 revealed that I&M bank had the lowest percentage (22%) in terms of forward looking information. Bank of Kigali and Rwanda development bank had the highest percentage (68%) in terms of forward looking information. From the descriptive statistics below it is evident that the highest level of disclosure done by commercial banks is in Bank of Kigali and Rwanda development bank while the lowest is I&M bank.

The percentages were determined on the bases of a bank disclosing an item of information in its annual report, then ‘1’ was awarded and if the item is not disclosed, then ‘0’ was awarded. This approach is also referred to as dichotomous scoring scheme. The percentages on forward looking information was based on the items on Table 3

Table 3: Items used on Forward looking information

		2011	2012	2013	2014	2015
i.	Factors that may affect future performance	50%	50%	50%	50%	50%
ii.	Likely effect of business strategy on future performance	64.3%	64.3%	64.3%	64.3%	64.3%
iii.	New product/service development	100%	100%	100%	100%	100%
iv.	Planned capital expenditure	100%	100%	100%	100%	100%
v.	Planned research and development expenditure	78.5%	78.5%	78.5%	78.5%	78.5%
vi.	Planned advertising and publicity expenditure	35.7%	35.7%	35.7%	35.7%	35.7%
vii.	Earnings per share forecast	21.4%	21.4%	21.4%	21.4%	21.4%
viii.	Sales revenue forecast	71.4%	71.4%	71.4%	71.4%	71.4%
ix.	Profit forecast	100%	100%	100%	100%	100%

From the Table 3 All the banks scored 100% on new product/service development, Planned capital expenditure and Profit forecast. Planned research and development expenditure was scored 78.5%. Likely effect of business strategy on future performance was scored 64.3% whereas Factors that may affect future performance was scored 50%. Earnings per share forecast were less disclosed at 21.4%.

4.3: Social and Board Disclosure

Analysis of the reports from the year 2011 to 2015 revealed that Agaseke bank had the lowest percentage (41%) in terms of social and board disclosure. AB bank and KCB bank had the highest percentage (71%) in terms of general and strategic information disclosure. From the descriptive statistics above it is evident that the highest level of disclosure done by commercial banks is in AB bank and KCB bank while the lowest is Agaseke bank.

The percentages were determined on the bases of a bank disclosing an item of information in its annual report, then ‘1’ was awarded and if the item was not disclosed, then ‘0’ was awarded. This approach is also referred to as dichotomous scoring scheme.

Table 4: Items used on Social and board disclosure

		2011	2012	2013	2014	2015
i.	Number of employees for the last two or more years	42.8%	42.8%	42.8%	42.8%	42.8%
ii.	Reasons for change in employee number	35.7%	35.7%	35.7%	35.7%	35.7%
iii.	Productivity per employee	42.8%	42.8%	42.8%	42.8%	42.8%
iv.	Other productivity indicators	35.7%	35.7%	35.7%	35.7%	35.7%
v.	Indication of employee morale e.g. turnover, strikes and absenteeism	50%	50%	50%	50%	50%
vi.	Information about employee workplace safety	71.4%	71.4%	71.4%	71.4%	71.4%
vii.	Data on workplace accidents	21.4%	21.4%	21.4%	21.4%	21.4%
viii.	Statement of corporate social responsibility	92.8%	92.8%	92.8%	92.8%	92.8%
ix.	Statement of environmental policy	92.8%	92.8%	92.8%	92.8%	92.8%
x.	Environmental projects/activities undertaken	71.4%	71.4%	71.4%	71.4%	71.4%
xi.	Information on community involvement/participation	85.7%	85.7%	85.7%	85.7%	85.7%
xii.	Names of directors	14.2%	14.2%	14.2%	14.2%	14.2%
xiii.	Age of directors	14.2%	14.2%	14.2%	14.2%	14.2%
xiv.	Academic and professional qualification of directors	50%	50%	50%	50%	50%
xv.	Business experience of directors	57.1%	57.1%	57.1%	57.1%	57.1%
xvi.	Directors' shareholding in the company and other related interests (e.g. stock options)	85.7%	85.7%	85.7%	85.7%	85.7%
xvii.	Disclosure concerning senior management responsibilities, experience and background	64.3%	64.3%	64.3%	64.3%	64.3%

From Table 4 it is clear that most banks disclosed 92.8% of information about Statement of corporate social responsibility and Statement of environmental policy. Information on community involvement/participation and Directors' shareholding in the company and other related interests (e.g. stock options) were disclosed 87.5%. Environmental projects/activities undertaken was scored 71.4%, Names of directors and age of directors were poorly disclosed at 14.2%.

4.4 Financial Disclosure

Analysis of the reports from the year 2011 to 2015 revealed that Unguka bank had the lowest percentage (25%) in terms of financial disclosure. Access bank, ECO bank and GT bank had the highest percentage (75%) in terms of financial disclosure. From the descriptive statistics above it is evident that the highest level of disclosure done by commercial banks is in Access bank, ECO bank and GT bank while the lowest is Unguka bank. The percentages were determined on the basis of a bank disclosing an item of information in its annual report, then '1' was awarded and if the item was not disclosed, then '0' was awarded. This approach is also referred to as dichotomous scoring scheme.

Table 5: Items used on financial disclosure

		2011	2012	2013	2014	2015
i.	Historical summary of financial data for the last 5 years or over	64.3%	64.3%	64.3%	64.3%	64.3%
ii.	Review of current financial results and discussion of major factors	71.4%	71.4%	71.4%	71.4%	71.4%
iii.	Underlying performance	100%	100%	100%	100%	100%
iv.	Statement concerning wealth created e.g. value added statement	71.4%	71.4%	71.4%	71.4%	71.4%
v.	Supplementary inflation adjusted financial statement	100%	100%	100%	100%	100%
vi.	Return on assets	71.4%	71.4%	71.4%	71.4%	71.4%
vii.	Return on shareholders' funds					
viii.	Liquidity ratios	71.4%	71.4%	71.4%	71.4%	71.4%
ix.	Gearing ratios	85.7%	85.7%	85.7%	85.7%	85.7%

From Table 5 it was clear that most banks disclosed Underlying performance and supplementary inflation adjusted financial statement 100%. Gearing ratios was disclosed 85.7%. Review of current financial results and discussion of major factors, Liquidity ratios, return on assets and Statement concerning wealth created e.g. value added statement was disclosed 71.4%. Whereas historical summary of financial data for the last 5 years or over was disclosed only 64.3%.

4.5 Regression Model

Regression analysis was done to determine the relationship between voluntary disclosure and financial performance.

Table 6: Coefficient results showing the relationship between the combined Voluntary disclosure variables and performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.035	.012		3.016	.041
	X_1	-.012	.001	-.540	8.125	.821
	X_2	.111	.029	.202	-3.838	.155
	X_3	.220	.036	.339	6.048	.217
	X_4	.343	.225	.503	5.308	.271

The result of the regression analysis of the association between the ROE and the extent of voluntary disclosure in the annual reports of commercial banks are shown in the section above. The table shows the coefficients of the model and the significance of each coefficient. The model has a constant of 0.035 while the coefficients for the explanatory variables have standardized betas of -0.540 for general and strategic information, 0.202 for forward looking information and 0.339 for social and board disclosure. Financial disclosure has a beta of 0.503. The standardized coefficients of beta were used to identify the relationship between financial performance and voluntary disclosure. The t- statistics of the model are not significant at 5%, however forward looking and financial disclosures are significant at 10%.

$ROE = 0.035 + 0.540X_1 - 0.202X_2 + 0.339X_3 + 0.503X_4$

5.0. Conclusions

The findings of this study revealed that there is a significant positive relationship between voluntary disclosure and financial performance measure, (Return on equity) for commercial banks in Rwanda. When combined with Pearson Product Moment Correlation Coefficient the study found that financial performance is positively correlated to forward looking disclosure, social and board disclosure and financial data disclosure but negatively correlation to general and strategic disclosure. The regression model obtained an adjusted R^2 of 0.268. This implies that, 26.8% of the variations in financial performance measure ROE can be explained by variations in voluntary disclosure whereas 73.2% of the variations in financial performance measure (Return on investment) are explained by other factors outside of the multiple regression models developed. The study found a negative relationship between general & strategic disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 54% decrease in return on equity of a firm. This however is not in accordance with the journals reviewed in chapter two. However financial, forward looking and board and social disclosure is positively related to return on equity. A 1% increase in financial disclosure leads to a 50.3% increase in financial performance of commercial banks, while a 1% increase in forward looking disclosure leads to 20.2% increase in return on equity and a 1%increase in board and social disclosure leads to a 33.9% increase in return on equity.

The study concludes that firms should lean towards disclosure of financial and social and board disclosure to increase their performance. However, study carried out by Barako (2007) shows that general and strategic disclosure is a good proxy for measuring disclosure which is not explained in this study. Study done by Aksu and Kosedag (2005) in Istanbul highlights a significant relationship between financial disclosure and performance, however no significant relationship between board and social disclosure and financial performance. Lang and Luncholm (1993) found a positive relationship between firm performance and firm size which is also explained in this study. The study conforms to the studies reviewed in terms of a positive relationship between financial disclosure and financial performance and a positive relationship between company size and financial performance.

5.1. Recommendations

This research report recommends that since there is significant relationship between voluntary disclosure and financial performance, managers in organizations should disclose information voluntarily not only for the purposes of obtaining cheaper capital but also because voluntary disclosure of information increases transparency and accountability in annual reporting. The prospective shareholders get to learn more from the additional disclosure and this motivates them to invest in the commercial banks because they have more information relating to the banks. Given that voluntary disclosure comes with a cost, firms would do well to voluntarily disclose so as to signal to potential investors and enjoy a positive reputation, thus maximizing firm value.

From the study it can be concluded that corporate disclosure over the years have been gaining awareness from the public and the investors and there has been a satisfactory level of corporate disclosure practices in commercial banks in Rwanda especially financial and board disclosure. However, few changes can help increase disclosures in Rwanda.

1. Commercial banks should emphasize in all practices and disclosure levels should not be restricted to annual reports. Firms should ensure transparency and disclosure in all kinds of activities.
2. It was noted that large commercial banks disclose more information as compared to small firms, hence corporate disclosure practices should be followed by all firms no matter their size.
3. Steps should be taken for mandatory compliance of the BNR notification and for reducing the gap between disclosure practices especially for companies not quoted at RSE.
4. Efforts should be made to create a unified measure for voluntary disclosure as to provide a more accurate analysis for policy recommendations.

5.2. Areas for further research

This study was conducted on the banking sector alone and this may not provide adequate comparison on disclosure. From the disclosure index constructed, scores of 1 was allocated for items disclosed on the disclosure index and 0 for non-disclosure; this may be biased as it may be possible that the company many not disclose a particular item, however it has information on another item which is not included in the check list. Hence there is no importance given to a particular item, each item is weighted equally, therefore weightage should be based on the importance of an item to disclosure. Scholars should also develop a unified disclosure index in order to eliminate unbiased rating on important disclosure items.

Given that researchers are increasingly exploring the concept of voluntary disclosure; this study recommends that an extension of this study be done in other jurisdictions in developing economies to see whether the findings support those in this study.

Also, if research was centered on specific industries like Banking, Telecommunications and Manufacturing, there could possibly be more focused results since different industries respond differently to information disclosures.

Moreover, if the relationship between voluntary disclosure and financial information was investigated as soon as the annual reports were released, probably the outcomes could have been more effective in predicting the relationship.

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