Regulatory perspectives on integrated reporting in an emerging market: the case of listed companies in Kenya

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Abstract: Based on agency and stakeholder theories, we review the regulatory framework that supports integrated reporting by listed companies in Kenya and utilise semi-structured interviews to obtain and evaluate the views of regulators about current reporting requirements and integrated reporting. We find that regulation is nebulous due to overlaps and multiple reporting requirements. Other than the Kenya Capital Markets Authority's corporate governance code, there is little legal and professional support for the adoption of integrated reporting. Even though regulators think the adoption of integrated reporting will enhance transparency in current reporting practices, they are sceptical about harmonising and addressing the regulatory challenges. This paper adds to the growing literature on stakeholders' views on integrated reporting from an emerging market context faced by weak regulatory enforcement mechanisms. The findings are useful to regulators and policy-makers in highlighting the challenges faced in the adoption of a new reporting dispensation, like integrated reporting.

Keywords: corporate regulation; integrated reporting; international financial reporting standards; IFRSs; corporate governance reporting; sustainability reporting; Kenya.

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1 Introduction

1.1 Background to corporate reporting and the motivation for this study

Corporate reports provide information that is useful for decision-making and for promoting an efficient capital market (Bushman et al., 2001; Healy and Palepu, 2001). Therefore, various stakeholders, both locally and globally, are making efforts to improve disclosures made in corporate reports. The disclosures are for both financial and non-financial information. Financial information is prepared in accordance with accounting standards reporting revenues, expenses, profits or losses, cash flows, assets, liabilities and capital for investors to assess the financial well-being of an organisation (Bushman and Smith, 2001). Except for the narratives given to support information provided in financial statements, non-financial information comprises sustainability reports (social and environmental reporting), using guidelines such as those given by the Global Reporting Initiative,[1] and corporate governance reports using guidelines such as those of Organization of Economic Cooperation and Development.[2] These reports are usually prepared separately.

In the late 1990s and early 2000s, various stakeholders made attempts to blend financial and non-financial information through the concepts of the Triple Bottom Line and integrated reporting. Indeed, Elkington (1998) proposed the concept of the Triple Bottom Line or the 'three Ps', being profit (economic value), people (society) and planet (environment). Integrated reporting started by the formation of the International Integrated Reporting Council (IIRC) in 2010 and the launch of the integrated reporting discussion paper (IIRC, 2011). Consequently, to guide companies prepare an integrated report, IIRC launched the International Integrated Reporting Framework (the framework) in 2013 (IIRC, 2013). The framework [IIRC, (2013), p.7] defines an integrated report as:

> "A concise communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term."

An integrated report thus requires a company to link its financial and non-financial information, to show how the company has created value. The rationale for integrated reporting is that investors and other stakeholders recognise that financial performance and environmental, social and governance performance are intertwined (Eccles and Serafeim, 2013).

Additionally, the framework provides for the content, the capitals and principles to be observed by organisations in preparing the integrated report. The content of an integrated report is given in the framework as: an overview of the organisation and its external environment, its governance, its business model, its risks and opportunities, its strategy and its resource allocation, its performance, its outlook and the basis of its performance (IIRC, 2013). The framework requires an organisation to explain how value is created for example by increases in the capitals. The capitals include financial, manufactured, intellectual, human, social and relationship and natural. Moreover, in preparing the integrated report, the framework requires companies to observe principles such as strategic and future orientation, connectivity of information, and consider only material information.

The IIRC posits that if companies adopt integrated reporting, regulators (IIRC also adds policymakers here and standard setters) will benefit from enhanced transparency by companies, leading to better allocation of capital and the management of sustainability issues (see Table 1 for additional benefits). Looking at these benefits, though IIRC posits for regulators, are likely to be more for investors. Regulators may benefit if companies disclose all pertinent information to investors, leading to higher compliance rates; the work of regulators will be made easier. However, Table 1 also highlights the challenges to regulation as a result of adopting integrated reporting.

Table 1 Benefits and challenges of integrated reporting to regulators

Benefits		*Challenges*	
1	Supports more effective capital allocation across the economy generally and to the organisation.	1	Mechanisms for revising legislation, regulation, and standards require leadership, political will, coordination, time, resources, consultation, and a due process.
2	Offers a platform to harmonise advances in reporting that have arisen in different jurisdictions.	2	The scope of integrated reporting will cover new and evolving subjects and will have a more strategic focus; hence the resulting concerns of various stakeholders will need to be addressed.
3	Addresses various risks that develop, are harboured and transmitted through financial markets.		
4	Organisations are more accountable as stewards of resources.		
5	Supports effective action by policy-makers and regulators as users of the information.		

Source: IIRC (2011)

Advocates of integrated reporting view it as an improvement of corporate reporting (Krzus, 2011) and the IIRC encourages its global adoption. South Africa was the first country to have mandated integrated reporting for listed companies (SAICA, 2010). In March 2016, the Kenya's Capital Markets Authority (CMA) issued revised corporate governance guidelines, with one of the recommendations requiring public companies to adopt integrated reporting, but on a voluntary basis.[3]

However, efforts by the IIRC and the CMA to encourage the adoption of integrated reporting may be made with less consideration of several regulatory issues. These cover aspects such as the relevant laws that apply for companies in general or sector specific and their provisions with regard to disclosures and reports prepared by companies, various demands made by companies that are faced with multiple regulators and laws, and the views of several regulators in relation to changes in reporting requirements for companies.

This paper contributes to the growing literature on integrated reporting from the context of an emerging market. According to the World Economic Forum, Kenya is one of Africa's emerging economies, where the capital markets are still developing (Schwab, 2014). If capital markets are still developing, there are challenges such as those from regulation that stakeholders may need to overcome in order to improve corporate reporting and possibly the adoption of integrated reporting. Regulation plays an important role in corporate reporting, but it varies across countries (Bushman and Landsman, 2010). In addition, while regulators are important stakeholders, prior studies have focused on the views of prepares and users on integrated reporting (see Section 2). The key questions addressed are therefore: To what extent is the current regulatory framework for listed companies in Kenya ready for adoption of integrated reporting? What are the perspectives of regulators of listed companies in Kenya on current and integrated reporting?

1.2 Brief background of Kenya: economic and capital markets

The recent economic survey by the Kenya National Bureau of Statistics (KNBS)[4] reports that Kenya has a population of about 47 million and a gross domestic product (GDP) of \$77.5 billion. The GDP growth rates have been stable averaging 5.6% for the past five years. Kenya's economy is the dominant one in East Africa, the fourth largest in Sub-Saharan Africa and the ninth largest in the whole of Africa (Bhorat and Tarp, 2016).

Kenya's capital market (the Nairobi Securities Exchange – NSE) is still developing; it is the largest in East and Central Africa with a market capitalisation of \$26 billion in early 2018.[5] It is made up of the equity market, the bond market, the derivative market (which is at the early stage of development), and a market for other products that comprise of exchange-traded funds and Real Estate Investment Trusts (REITs). The market has about 20% foreign investor participation from outside East Africa. In early 2018, the NSE had 64 listed companies in the main segment including: agriculture (7), automobile and accessories (3), banking (11), commercial and services (10), construction and allied (5), energy and petroleum (5), insurance (6), investment (6), manufacturing and allied (10) and telecom and technology (1).[6]

2 Literature review and theories on corporate disclosures

2.1 Brief background on agency theory and the regulation of corporate reporting

Literature on the regulation of corporate reporting is expansive: see Bushman and Landsman (2010) for a discussion. This paper highlights the rationale for, and approaches to, regulating corporate reporting in the context of supporting innovations in corporate reporting in an emerging market like Kenya.

Agency theory begins with the agency relationship and goes on to deal with the problems that arise from the relationship, and possible solutions to these problems. An agency relationship is one where principals (shareholders) appoint agents (company management) to act on behalf of the principals (Jensen and Meckling, 1976).

Eisenhardt (1989) explained that agency theory has developed along two research lines: Positivists and principal-agent. Positivists researchers first establish situations where the principal and the agent will potentially have conflicts, then recommend mechanisms to reduce the conflicts and minimise self-interest behaviour of the agent. Positivist researchers have particularly focused on the principal-agent relationship between shareholders and directors/managers (Berle and Means, 1932). Principal-agent researchers focus on the principal-agent relationship in general, i.e., identifying situations where principal-agent relationship can arise beyond shareholders and directors. Several situations have been identified having principal-agent relationship like that of employer and employee, lawyer and client and buyers and supplier (Harris and Raviv, 1978).

The focus of the current research was positivist in perspective, looking at the agency relationship between shareholders and directors in relation to disclosures made in their annual reports. In this case, regulation attempts to resolve one problem of the agency relationship, that of information asymmetry in which managers have access to more information than shareholders. Healy and Palepu (2001), suggest that regulating corporate disclosures is one way to reduce information asymmetry. Regulation mandates companies to prepare reports and make additional disclosures for effective monitoring and decision making by shareholders (Al-Razeen and Karbbhari, 2004). Moreover, according to Leuz (2010), corporate reporting is regulated to avoid companies making selective and lower disclosures (externality), to accord cost savings to the economy by standardising disclosures and making companies provide information voluntarily, without having to incur the costs of bargaining and regulator enforcement and to compel companies to make more disclosures which leads to more transparency.

Therefore, the general approach to regulation is the laying down of laws by the state and by professional bodies, which differ across countries. State laws require compliance on internal matters such as the keeping of records, preparing financial statements in accordance with accounting standards and having the financial statements audited. In addition state laws guide on external matters such as having regulators to give guidance on the laws and carry out enforcement actions, for companies that fail to comply. Professional bodies focus on best practices and regulating the conduct of their members. According to Bushman and Landsman (2010), regulation varies across countries due to the difference in culture, in legal and political institutions. Given these differences, it is possible that the attempt by the IIRC and local regulators to promote the adoption of integrated reporting and other innovations in corporate reporting may face some challenges, including that of regulation.

In summary, this section has provided the rationale for corporate reporting regulation as per agency theory, and in consideration of the different approaches to corporate reporting due to different country factors. Given that Kenya is an emerging market, with the potential challenges of regulating corporate reporting, this paper aimed to examine whether the regulatory framework supports innovations such as the adoption of integrated reporting.

2.2 Stakeholder theory and stakeholders' perspectives regarding integrated reporting

Some studies on integrated reporting have obtained the perspectives of two sets of key stakeholders, namely preparers and users. This section first introduces stakeholder theory and then discusses these studies on the perspectives of preparers and users on integrated reporting.

Freeman (1984) argues for the activities of management to be questioned by a wider group of stakeholders and not only shareholders (agency theory considers the shareholder to be the principal stakeholder). According to Donaldson and Preston (1995, p.68), stakeholders are:

> "All persons or groups with legitimate interests participating in an enterprise who do so to obtain benefits, and there is no prima facie priority of one set of interests and benefits over another."

Companies promote transparency to all stakeholders by providing mandatory information (Gray et al., 1997) and voluntary information (Core, 2001) in their annual reports. Stakeholders include shareholders, employees, customers, suppliers, financiers, the government and other regulatory bodies and the public.

Several studies on integrated reporting have collected the perspectives of preparers for example IIRC (2012), Stubbs and Higgins (2012) and Steyn (2014). The IIRC (2012) study, using a questionnaire, collected the perspectives of the staff of more than 80 companies in various stages of preparing an integrated report. According to the study, by adopting integrated reporting, 98% of the companies agreed that stakeholders would have a better understanding of how the organisation creates value, 74% expected more consistency in external communications, 93% looked towards better data collection and higher quality data, 64% thought that there would be better information for analysts, 95% posited benefits for employees, and 97% thought there would be overall a positive change in reporting.

Stubbs and Higgins (2012), in their study of 22 companies in the ASX50 index in Australia (designed to represent 50 of the largest and most liquid stocks listed on the Australian Stock Exchange), found that even though managers are aware of integrated reporting, they do not seem to understand it well. In addition, the authors highlighted challenges concerning multiple reporting requirements, wide ranges of communication needs, and difficulty in coordinating different functions for preparing integrated reporting.

Steyn (2014) using a self-administered web-based survey, sought to find the perceptions of the senior executives of listed companies in South Africa on integrated reporting: findings highlighted several challenges with the adoption of integrated reporting. First, the respondents expressed concerns that there is no better resource allocation and perceived cost reductions from adopting integrated reporting. Second, adopting integrated reporting requires significant changes in management information systems that would be costly. Finally, respondents did not expect additional benefits from companies rethinking their business models after adopting integrated reporting.

The perspectives of users have also been obtained in some studies. For example, Gasperini et al. (2013) used a questionnaire to determine the perceptions of financial analysts in Italy on integrated reports, the value of information on intellectual capital, knowledge gained from integrated reporting and its effectiveness in communication. The main conclusion from the study was that financial analysts have limited knowledge of integrated reporting, although they welcome standardisation on non-financial information, in addition to making it more accessible. Slack and Tsalavoutas (2018) also interviewed 22 equity analysts in the UK to obtain their perspectives on how useful integrated reporting and the integrated reporting framework is in their investment decision making process. The authors reported that most of the equity analysts do not find integrated reporting relevant to decision-making and hence not useful.

From the two stakeholders' perspectives, whereas companies/preparers find integrated reporting useful, users find it less useful. If integrated reporting is not relevant to users, this may raise a question as to whether regulators should require or recommend its adoption. It is against this background, that this paper sought the perspectives of regulators regarding the utility of integrated reporting.

3 Methodology

3.1 Population and sampling

The population for this study comprised all regulators that supervised listed companies in Kenya in early 2018. The regulators are: The Institute of Certified Public Accountants of Kenya (ICPAK), The Institute of Certified Public Secretaries of Kenya (ICPSK), The CMA, the NSE, the Central Bank of Kenya (CBK) and the Insurance Regulatory Authority (IRA). The role of each regulator in corporate reporting for listed companies is discussed in Section 4 of the findings. Out of the six regulators, five regulators accepted the invitation to be interviewed.

3.2 Research tools

3.2.1 Document review and analysis

The legal documents and other information were obtained from the websites of various regulators and legal depositories available online.[7] Merriam (1988, p.118) points out that "Documents of all types help the researcher uncover meaning, develop understanding, and discover insights relevant to the research problem." These documents include both technical and non-technical literature, for internal or external use and are also applicable in case studies (Mills et al., 2006).

Moreover, document review is often used in combination with other qualitative research methods as a means of triangulation – "the combination of methodologies in the study of the same phenomenon" [Denzin, (1970), p. 291]. The researcher is expected to draw upon multiple sources of evidence by seeking convergence and corroboration; hence in addition to documents, other sources should include interviews and observation

(Stake, 1995). Regulators were interviewed to explain their role, also confirmed from the various legal documents.

Consequently, the annual reports of the companies in each sector were queried first to establish the regulators and the laws under which a company is required to comply. For example, for a bank, the annual report stated the Central Bank as the main regulator. Additionally, the roles of various regulators were confirmed from the appropriate websites and the relevant laws. The authors sought legal opinion where relevant for further clarification.

3.2.2 Use of interviews

Dörnyei (2007, p.132) explains that qualitative data is 'most often' collected by researchers through interviews and questionnaires. However, interviews, compared to questionnaires, are more powerful in eliciting narrative data that allows researchers to investigate people's views in greater depth (Kvale, 1996). Cohen et al. (2007, p.29) add that interviewing is "a valuable method for exploring the construction and negotiation of meanings in a natural setting."

Consequently, semi-structured interviews with the regulators were conducted, in which the interview guide combines both closed and open-ended questions (Berg, 2007). The interview guide had separate sections for current reporting, proposed integrated reporting and the way forward for corporate reporting in Kenya. In order to ensure that the interview responses are reliable, the interviews took as long as was necessary (shortest being two and a half hours), detailed notes were written down, points from one interviewee were shared with others and additional clarification was sought whenever necessary. Each regulator was provided with the interview guide in advance in order to prepare adequately.

4 Findings

4.1 The regulatory framework for listed companies in Kenya

4.1.1 Legal requirements

4.1.1.1 The Companies Act

For the calendar year 2015 and prior years, listed companies in Kenya prepared financial statements in accordance with the requirements of Kenya's Companies Act of 1978 revised in 2009. Section 147 of the Act required financial statements to show a true and fair view of the state of the company's affairs and its transactions. Section 148 of the Act stipulated that a company should prepare at least in each calendar year, a profit and loss account for the year and a balance sheet as at the end of the financial year. Section 156 required an auditor's report while Section 157, a directors' report. The profit and loss account and the balance sheet were supposed to comply with the requirements of the Sixth Schedule to the Companies Act (Section 149). This Schedule was not in accordance with International Financial Reporting Standards (IFRSs): the Act did not specifically require compliance with IFRSs.

In September 2015, a new Companies Act of 2015 was passed into law. Due to concerns from stakeholders, and further consultations, this Companies Act was implemented in two phases. A number of Parts and Schedules came into operation on 6th November 2015 through Legal Notice No. 232 of 13th November 2015. The remaining parts of the Act came into effect on 15th June 2016.

Part XXV of the Companies Act of 2015 deals with financial statements and other reports and is expected to improve the preparation of annual reports by companies. Section 620(3) specifies that the annual report of a listed company shall comprise of financial statements, a directors' remuneration report, a directors' report and an auditor's report. This new Companies Act clearly stipulates that financial statements should be prepared as per accounting standards prescribed by the ICPAK [s.620(4)]. Section 655(1) requires directors of a listed company to prepare a business review that includes future-oriented information, social and environmental factors (sustainability), key performance indicators, and information about its employees and directors' remuneration. However, Section 656(1) exempts disclosures of such information if the disclosure is not of interest to the public or may lead to competitive harm.

In summary, the Companies Act of 2015 is expected to improve the information companies will disclose. This new Act requires the preparation of sustainable reports and other non-financial reports (but not expressly a corporate governance report), which were not required under the old Companies Act. However, the requirements of the new Companies Act may lead to the preparation of many reports that overlap. For example, the directors' remuneration is also required by the accounting standards, and corporate governance reports. In addition, the new Companies Act does not provide for a corporate governance report nor an integrated report. If regulators have been aware of integrated reporting since 2013, then integrated reporting should have been potentially included in the enactment of the law, a scenario that points a potential gap in regulation.

4.1.1.2 The Banking Act and the Central Bank Prudential Guidelines

The Banking Act

The Banking Act Chapter 488 of 1989 was revised in 2015. Banks in Kenya are supervised and regulated by the CBK. There have been revisions to the Banking Act through annual Finance Acts required by law to be promulgated to present the annual Budget for the Government with the latest revision in Act No. 38 of 2016. Sections 21 to 25 provide various requirements on the preparation of financial statements and their audit. The CBK prescribes the form of accounts and other information, which are not in accordance with IFRSs, even though CBK requires the financial statements of banks to be prepared in accordance with IFRSs (see below). Section 22 requires a bank to present quarterly financial statements and annual financial statements to the CBK before being published in a newspaper with nationwide circulation.

Section 28 of the Banking Act also explains that the CBK and the Cabinet Secretary-Treasury may require a bank to furnish additional information as part of supervision procedures. Section 28(3) of the Banking Act specifies the information to be provided for supervision: the legal, managerial and operational structure of a group or banking group; the risk profile of a group or banking group and its individual subsidiaries; the way in which internal risk management is organised and conducted within a group; and the corporate, financial and other linkages existing between the members of a group.

The CBK Prudential Guidelines

Section 33(4) of the Banking Act permits the CBK to issue Prudential Guidelines to maintain a stable and efficient banking system. The guidelines apply to banks, mortgage providers, and other financial institutions. The CBK issued the revised 2013 Prudential Guidelines covering governance and risk management, financial reporting requirements (including performance ratios for both publicly listed and privately held banks), business continuity management, bank services, including agency banking, bank data reporting, including credit and information sharing.[8]

Under part III of the Prudential Guidelines, banks are required to apply good corporate governance practices and prepare a corporate governance report. Besides, part IV of the Prudential Guidelines provides for adequate risk management and reporting. Part X of the guidelines covers publication of financial statements, which must be prepared in accordance with IFRSs, and other disclosures. The financial statements are prepared in a manner prescribed by the CBK and should be approved by the CBK at least two weeks before publishing. Also, all banks are required to prepare quarterly unaudited financial statements.

Section 3.5 of the Prudential Guidelines provide for detailed qualitative disclosures that a bank should make in its annual report. These are financial performance, financial position (including capital, solvency, and liquidity); risk management strategies and practices; risk exposures (including credit risk, market risk, liquidity risk, and operational, legal and other risks); aggregate exposure to related parties and transactions with related parties; all material entities in the group structure; accounting policies; and primary business, management and corporate governance information.

Section 5 of the Prudential Guidelines provides a template that a bank should use in presenting its financial statements. The purpose of the template is to enhance transparency and promote uniformity in the way banks prepare and present their financial statements. The template is useful because IFRS have provided only a sample of financial statements formats for general businesses and detailed disclosures under IFRS 7 'financial instruments-disclosure' on risks. However, this template does not comply with IFRS.

Due to strict regulations emanating from the Banking Act and CBK's Prudential Guidelines, banks are expected to provide a more detailed annual report. Part of this information is what is required by the integrated report, such as corporate governance and risk management. This implies that banks should find adoption of integrated reporting easier. The majority of the aspects required by an integrated report such as external and internal environment, risks and opportunities, and performance are legally provided under the Banking Act and the Prudential Guidelines. However, the law does not require information about a business model and outlook.

However, despite the law and the Prudential Guidelines, there is a gap on reporting sustainability matters. Neither the Banking Act nor the Prudential Guidelines provide for detailed requirements on sustainability reporting matters and integrated reporting.

4.1.1.3 The insurance act and other insurance guidelines

Insurance companies and reinsurance companies in Kenya are regulated by the Insurance Act of 1985 and revised in 2015 and circulars and other guidelines issued by the IRA. Part VI of the Act provides guidance on the preparation of financial statements.

Section 54 of part VI requires insurance companies to prepare a revenue account for each class of insurance business, a statement of profit or loss and a balance sheet in compliance with IFRSs. Also, insurance companies are required to prepare quarterly financial statements to be published and presented to the IRA together with an actuarial valuation report and a statement of return detailing the nature of the business of the insurance company.

Table 2 The legal regulatory framework for NSE listed companies

Compliance/ reports	*Companies Act (2009)*	*Companies Act (2015)*	*Banking Act and Prudential Guidelines*	*Insurance Act and Prudential Guidelines*
Scope	All companies in Kenya	All companies in Kenya	Only banks (both listed and unlisted)	Only insurance companies (both listed and unlisted)
IFRSs compliance	Not required but the Sixth Schedule of the Act provides formats for the accounts	Accounts should be prepared in compliance with Accounting Standards recommended by ICPAK s.620(4)	The Prudential Guidelines provide the format of financial statements for banks, which does not comply with IFRSs but compliance with IFRSs also required	Insurance companies are expected to comply with IFRSs as per Section 54 Part VI of the Insurance Act
Sustainability reporting	Not required	Now required as per Section 655(1) of the Act	Not required under both the Act nor the Prudential Guidelines	Not required under the Act nor the Prudential Guidelines
Corporate governance reporting	Not required	Not explicitly required by the new Companies Act	Part III of the Prudential Guidelines requires corporate governance reports	IRA under the Insurance Act provides for corporate governance guidelines and reports
Other reports	Auditors report and directors' report	Section 620(3) requires directors remuneration report, a directors' report, and an auditors' report, a business review that includes future-oriented information, social and environmental matters, and key performance indicators, and employee information	The Act requires, the legal, managerial, and operational structure of a group, the risk profile of the group and its risk management	Actuarial valuation report

In June 2011, under Sections 3A(a), 3A(b) and 3A(g) of the Insurance Act, the IRA issued Corporate Governance Guidelines to be observed by insurance and reinsurance companies in Kenya to enhance corporate governance practices in the insurance sector.[9] Part VIII covers aspects of reporting including the preparation of a corporate governance report.

Like the banking sector, insurance companies have detailed requirements regarding the preparation of financial statements that must comply with IFRSs. Also, insurance companies need to prepare corporate governance reports. However, just like banks, there is no evidence of a requirement to prepare sustainability reports. Therefore, insurance companies provide more information that may be sufficient for integrated reporting except for sustainability matters.

Table 2 on page 10 provides a summary of the legal framework for listed and unlisted companies in Kenya.

4.1.2 International Financial Reporting Standards

ICPAK adopted IFRSs and International Standards on Auditing (ISA) in 1998 for use in Kenya in order to improve the quality of financial information in the annual reports of companies. IFRSs [developed by the IASB (2018)] provide guidance on how transactions should be accounted for and reported in the financial statements. ICPAK requires its members to prepare financial statements for all entities in Kenya in accordance with IASs/IFRSs for periods beginning on or after 1 January 1999 while the audits of all financial statements for periods ending on or after 31 December 1998 were to be carried out based on ISA. Previously, companies in Kenya used Kenya Accounting Standards (KAS) and the Kenya Audit Guidelines (McFie, 2010).

ICPAK may have adopted IFRSs due to their perceived benefits. Barth et al. (2007) found that improved financial disclosures using IFRSs reduces the cost of capital. Barth et al. (2008) also found that amounts measured using IFRSs are of higher quality using metrics like earnings management, timely loss recognition, and value relevance. Covrig et al. (2007) posited that adoption of IFRSs by many countries reduces home bias investing (i.e., preference by local investors to invest in local equities) and hence encourages international investing as investors have uniform information.

Given that IFRSs are important in guiding the disclosure of financial information, it was expected that various regulators consider IFRSs as an important aspect in formulating and enforcing policy regarding corporate reporting.

4.1.3 Role of regulatory bodies

4.1.3.1 Institute of Certified Public Accountants of Kenya

Role of ICPAK in corporate reporting in Kenya's listed companies

The ICPAK was established in 1978 by the Accountants Act, Chapter 531 of the Laws of Kenya, as the professional organisation to regulate the activities of all Certified Public Accountants in Kenya. ICPAK is dedicated to the development and regulation of the accountancy profession in Kenya through promoting standards of professional competence and practice amongst members of the institute, promoting research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles concerning research.

ICPAK plays a vital role in regulating the preparation of annual reports in Kenya. However, its mandate centres on financial information, i.e., financial statements prepared in compliance with IFRSs. ICPAK, though, working together with other regulators, may influence companies to make additional disclosures, such as environmental, social and governance reporting. For example, ICPAK collaborates with CMA and NSE in the Financial Reporting Excellence Awards, also called FiRe Award (ICPAK, 2018). However, even though ICPAK has no legal powers to mandate companies to adopt integrated reporting, it may do so indirectly by requiring its members to prepare annual reports in accordance with the integrated report guidelines.

4.1.3.2 Institute of Certified Public Secretaries of Kenya

The ICPSK was established under the Certified Public Secretaries (CPS) Act (Chapter 534) of 1988 as the professional organisation for CPS (currently referred to as Certified Secretaries). ICPSK is dedicated to the promotion, growth, development, and regulation of the governance and corporate secretarial profession in Kenya. The institute is governed by a council comprising of 11 members, of whom ten are elected by members and one member is appointed by the cabinet secretary for finance under the CPS Act. Furthermore, the council is led by the chairman who is elected by the members.

ICPSK, as a regulator focuses on good corporate governance practices and reporting by companies in Kenya. In 2010, ICPSK launched the 'Champions of the Year' (CoY) Award (ICPSK, 2018). The award recognises individuals and institutions, both in the public and private sectors, that show the highest standards of corporate governance. The key parameters used in CoY Award include: the board of directors, ethical leadership and corporate citizenship, accountability, risk management, and internal control, transparency and disclosure, shareholders rights and obligations, shareholders relationship, compliance with laws and regulations, and sustainability and performance management. Usually, companies enter by filling self-assessment forms and attaching relevant documents such as annual reports. ICPSK follows up with an audit to confirm the evidence provided.

Based on the analysis provided, ICPSK is not legally mandated to influence the adoption of integrated reporting. However, good corporate governance practices and reporting may provide high quality information necessary for the preparation of an integrated report by listed companies.

4.1.3.3 Nairobi Securities Exchange

The NSE, was established in 1954 as an association of stockbrokers. In line with its plan to evolve into a full-service securities exchange that supports trading, clearing and settlement of equities, debt, derivatives and other instruments, the NSE changed its name to NSE, in June 2011 (NSE, 2018).

Although the NSE does not have specific rules regarding the content of published annual reports, the NSE listing guide of 2011 provides the minimum requirements for companies that want to be listed. Requirement no. 3 provides for IFRSs compliance. Requirements 10, 11, 12 and 13 provide that a company should have immediately before listing, declared profits in 3 out of 5 years and that the company is solvent, i.e., assets exceeding liabilities. NSE has no legal channels to require the preparation of an integrated report but collaborates with ICPAK and CMA in the FiRe Award.

4.1.3.4 The Kenya CMA

The CMA was established by the Capital Markets Act, Chapter 485, under the Ministry of Finance in 1989 and inaugurated in 1990 and revised in 2013, and again recently in 2017. This Act gives CMA the responsibility of supervising, licensing and monitoring the activities of market participants such as the NSE, the Central Depository and Settlement System Company (CDSC), listed companies and all other persons licensed under the Capital Markets Act.

The functions of the CMA include: licensing and supervising all the capital market intermediaries, ensuring proper conduct of all licensed persons and market institutions, regulating the issuance of capital market products such as shares and bonds, promoting market development through research, promoting investor education and public awareness and protecting the interest of investors (CMA, 2018).

For listed and other public companies, CMA provides detailed annual reporting guidelines through corporate governance rules. Section 11(3) of the CMA Act confers powers on CMA to issue the code of Corporate Governance rules for public companies. Listed companies are required to comply with this code. The code for 2015, launched in March 2016 (CMA, 2015), provides for annual reports under Chapter 6 Accountability Risk Management and Control and Chapter 7 under Transparency and Disclosures. Under Chapter 6 the code states:

> "The board shall have processes in place to ensure the books of account are prepared on a timely basis. In addition, the board shall recognize the value of an effective audit committee in ensuring the financial statements of the company are a reliable source of financial information. The audit committee shall amongst other items, ensure that the company's financial statements comply with applicable financial reporting standards as this is integral to the reliability of financial statements."

In the same chapter, CMA recommends that the board of directors of a company should work towards implementing integrated reporting by stating:

> "Integrated reporting is a process that brings together the material information about an organization's strategy, governance, performance and prospects in such a way that reflects its commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated reporting combines the most material elements of information currently reported in separate reporting strands (financial, management guidelines, governance and remuneration, and sustainability) into a coherent whole."

With regards to regulation, the code is the only attempt by CMA to provide for the adoption of integrated reporting. Section six of the code explains that adopting integrated reporting will lead to more disclosures and hence the board will manage and control the company better. However, the adoption of integrated reporting is voluntary. One rationale for voluntary adoption could be because preparers need time to understand and implement integrated reporting.

4.1.3.5 Central Bank of Kenya

The CBK was established by an Act of Parliament on 24 March 1966. The CBK is the government's bank and the principal supervisor of banks in Kenya. The mandate CBK is to formulate and implement monetary policy that fosters stability in the banking system. One way that CBK fosters stability in the banking system is through the supervision department which recommends the types of reports (and their contents) that banks should prepare; it analyses the reports and other returns to check for compliance with regulatory requirements to ensure that a bank meets certain minimum operating requirements.

Thus, as a regulator for the banks in Kenya, it plays a vital role in recommending reports and other disclosure requirements; banks in Kenya are expected to meet the reporting requirements of the CBK which are issued through Prudential Guidelines.

There was, however no evidence that the Central Bank supports the adoption of integrated reporting by banks.

4.1.3.6 Insurance Regulatory Authority

The IRA is a state corporation that was established in 2007 under the Insurance Act (Chapter 487) with a mandate to regulate, supervise and develop the insurance industry in Kenya. IRA has several functions. First, ensuring the effective administration, supervision, regulation, and control of insurance and reinsurance business in Kenya. Second, the formulation and enforcement of standards for the conduct of insurance and reinsurance business in Kenya. Third, to protect the interests of insurance policyholders and insurance beneficiaries in all insurance contracts. Fourth, to promote the development of the insurance sector. And finally, to issue supervisory guidelines and prudential standards from time to time, for the better administration of the insurance business of persons licensed under the Act and to share information with other regulatory authorities and to carry out any other related activities in furtherance of its supervisory role.

The IRA stipulates the content of annual reports for insurance companies through the Insurance Act and the Prudential Guidelines. As with CBK and the banks, there is no evidence that IRA advocates the integrated reporting for insurance companies.

Table 3 provides a summary of the regulators, discussions from this section.

Table 3 Summary of regulators of NSE listed companies

Regulator	*Regulates whom?*	*Requires compliance with IFRS?*	*Requires provision of sustainability reports?*	*Required provision of corporate governance reports?*
ICPAK	Accountants, both practicing and non-practicing	Yes, requires all practicing accountants to ensure financial reports comply with IFRSs	No, but encourages the same through annual FiRe Award	No, but encourages better disclosures through annual FiRe Award
ICPSK	Professional Secretaries who serve as secretaries for all companies in Kenya	No	No	Promotes good corporate governance principles and reporting and encourages these through Company of the Year Awards

Table 3 Summary of regulators of NSE listed companies (continued)

Regulator	*Regulates whom?*	*Requires compliance with IFRS?*	*Requires provision of sustainability reports?*	*Required provision of corporate governance reports?*
CMA	All listed companies in Kenya, NSE, CDSC, and other players like fund managers and investment advisors	Yes	Not required, but may now be prepared as a component of integrated reporting and encourages the same through annual FiRe Awards	Under Section 11(3) of the CMA Act, CMA issues corporate reporting guidelines which require mandatory compliance with IFRSs and corporate governance reports
NSE	All listed companies	Listing requirement no. 3 requires listed companies to comply with IFRSs	No, encourages the same through FiRe Award	Does not expressly require corporate governance report but supports CMA in compliance
CBK	All banks both listed and unlisted	Yes: requires compliance with IFRSs	Not clear regarding advocating for sustainability reporting	Requires corporate governance reports through part III of Prudential Guidelines
IRA	Insurance companies both listed and unlisted	Requires compliance with IFRSs through the Insurance Act	Not required or explicit on sustainability issues	Requires the preparation of a corporate governance report through Prudential Guidelines

4.2 Perspectives of regulators

4.2.1 Perspectives on current reporting

The regulators highlighted their role in corporate reporting as provided by the law. An important observation was that regulators discussed that their focus was on ensuring the annual reports disclose specific financial and non-financial information. Two regulators also focus on ensuring that the reports are easily accessible. However, what was not clear is how enforcement of non-compliance of reporting by companies is carried out by regulators. For example, for listed companies that do not comply with the law, should enforcement be done by CMA or NSE?

All the regulators felt that there were gaps and challenges in current reporting by companies. The first gap was on the levels of disclosures of non-financial information, such as sustainability matters. However, the regulators did not provide the specific gaps in sustainability reporting. Another challenge is from the new Companies Act of 2015 requiring companies to prepare multiple reports such as directors' remuneration and directors' reports. Regulators also pointed a major challenge of multiple regulators for some companies. For example, listed banks have three regulators: CBK, CMA and NSE. Each regulator requires different types of reports. Another challenge is poor coordination and enforcement on implementation and overlaps in the roles of regulators. For example, CMA, CBK and IRA all require a corporate governance report which have been customised for the industry such as for banks and insurance. All the regulators explained that the adoption of integrated reporting may address some of the gaps in current reporting such as on sustainability matters. For example, social and natural capitals as provided by the integrated reporting framework may improve sustainability reporting.

4.2.2 Perspectives on integrated reporting

Even though all the regulators stated that they are aware of integrated reporting and its general themes, each regulator seemed to have a slightly different understanding of integrated reporting.

A quote from one regulator:

> "All inclusive report about the company, moving from numbers to environment, social responsibility and what is being done to be sustainable (if the reports are separate are they really integrated?). There should be linkages like numbers." (REG. 1)

Another regulator:

> "Reporting beyond stewardship of financial resource. Reporting on other activities that are not basically financial in nature." (REG. 3)

Another regulator:

> "Going beyond financial reporting, by including more information on strategies of a company and how they lead to value creation for stakeholders." (REG. 4)

One regulator explained that integrated reporting is merely the disclosure of non-financial information, while another explained that integrated reporting provides information about strategy and business plans. But the general explanation was that integrated reporting is supplementing financial information with non-financial information.

Regulators were asked if integrated reporting will lead to the harmonisation of corporate reporting regulation as proposed by IIRC. Regulators expressed concern that this may not be feasible. This is because each regulator focuses on achieving its own legal mandate.

One regulator:

> "Yes, agreed to some extent, but it will be difficult because each regulator has different reporting requirements, for example in insurance there is emphasis on actuarial valuations and other technical liabilities. So, all the regulators can meet to harmonize the reporting requirements, but it may still be difficult to harmonize the regulations." (REG. 5)

Another regulator:

> "It may not be able to achieve one size fit for all. Some companies look at complying with the laws in their sectors, rather than meet all regulatory requirements. Lack of clarity on who should enforce the preparation of an IR. Each regulator should reinforce its legal requirements, and it is difficult to reinforce IR for the framework." (REG. 2)

All the regulators expressed the view that integrated reporting would improve the quality of corporate reporting in Kenya, but this is conditional. First, companies must be willing to be make more disclosures despite challenges of time, high costs of preparation, making the reports available and disclosure of sensitive information. Second, integrated reporting should be sector specific and address the concerns of regulators and preparers in each sector. For example, sectors like banks and insurance companies may need to prepare integrated reports that address regulatory requirements. Third, regulators expressed caution that companies require time to adopt integrated reporting and that stakeholders need to agree on how the adoption of integrated reporting will be achieved and regulated. For example, stakeholders would need to make changes in laws such as the newly issued Companies Act. Besides consultation with prepares, the cost implication of adopting integrated reporting needs to be assessed. Fourth, regulators explained that even though integrated reporting is an improvement to current reporting, unfortunately, it is still a process but not the panacea for insufficient corporate reporting disclosures. Finally, regulators requested that feedback from various stakeholders such as preparers and users on integrated reporting be obtained and considered. Regulators view corporate governance as one of the significant drivers of integrated reporting, hence this should be given prominence in adoption of integrated reporting. These reasons would probably explain why all the regulators propose that integrated reporting be voluntary rather than mandatory, at least initially.

5 Discussion and conclusions

This paper, anchoring on agency and stakeholder theories, assessed the extent to which the current regulatory framework for listed companies in Kenya supports the adoption of integrated reporting and obtained the perspectives of regulators about current reporting and integrated reporting. Given that integrated reporting is an innovation in reporting and that IIRC recommends its global adoption, the paper sought to establish whether regulation in emerging markets like that of Kenya can enable this corporate reporting innovation. Prior studies on stakeholders' perspectives on integrated reporting have focused on preparers and users, while this paper has considered the perspectives of regulators.

The regulatory framework for listed companies in Kenya is nebulous, with overlaps in regulation and multiple reporting requirements. There are several laws and various regulatory bodies. The laws include the new Companies Act of 2015 (which replaced the old Companies Act of 1978), the Banking Act, the Insurance Act and other Prudential Guidelines issued by regulators for Banks and insurance companies. Most of the legal and prudential guidelines recommend compliance with IFRSs, except for the Companies Act of 1978; the new Companies Act of 2015 is the only source of law for companies to prepare a sustainability report, while prudential guidelines require banks and insurance companies to prepare a corporate governance report. Despite the new Companies Act 2015 being recently operationalised, there is no legal requirement for companies to prepare an integrated report. Therefore, regulators, in encouraging the adoption of integrated reporting, will have to revise the laws in consultation with other stakeholders, if adoption of integrated reporting is to be successful.

Listed companies have six regulators – ICPAK, ICPSK, CMA, NSE, CBK and IRA; hence, the preparers of annual reports for banks, insurance companies and other companies have multiple regulators; the annual reports of listed banks are regulated primarily by the CBK, then CMA and NSE; the annual reports of listed insurance companies are regulated by IRA, and again by CMA and NSE. ICPAK requires its members to prepare the financial statements of all entities in Kenya in accordance with

IFRSs, while compliance with IFRS has legal backing in the new Companies Act; ICPSK and CMA issue guidelines on the preparation of corporate governance reports. The IRA and CBK also require the preparation of a corporate governance report in the insurance and banking sectors respectively. On the one hand, preparing reports as per the requirements of multiple regulators may lead to confusion hence a challenge to the adoption integrated reporting, for example if one regulator prescribes a different reporting format from that of another regulator. On the other hand, if an integrated report standardises the preparation of reporting and contains the requirements that meet the needs of all regulators, then it can address the issue of multiple reporting.

Even though an integrated report may assist to address the needs of various stakeholders, lack of legal backing or little support from a key regulator may lead to a challenge in adoption of integrated reporting. For example, if Central Bank does not endorse the adoption of integrated reporting for banks, this may pose a challenge for adoption of integrated reporting in the banking sector. In addition, none of the regulators require a sustainability report and only CMA recommends the voluntary adoption of an integrated report through the 2015 Corporate Governance Code for public companies (which include listed companies). This recommendation provides the only legal support for integrated reporting.

Regulators provided their perspectives on current reporting and integrated reporting. Regulators are of the view that there are gaps in reporting sustainability matters in current reports, but the regulators did not specify these gaps. Most likely, regulators are interested with sustainability matters, in line with best practice of having sustainable organisations and in line with stakeholder theory.

In addition, like in the case of preparers, the regulators raised concern about the challenges of multiple regulation and reporting. However, regulators posited that it is not possible to harmonise regulation, possibly due to the legal mandate of each regulator. Probably, harmonising regulation may render some of the regulators irrelevant, and this maybe the reason why regulators are hesitant or sceptical. Collaboration is probably an easier approach than regulating laws, like that of ICPAK, NSE and CMA in the FiRe Award. One potential way to enhance harmonisation is to make changes to various laws such as the Companies Act and specific Acts (like the CMA Act) which establish regulators and other Acts that deal directly with regulation. Changing laws in emerging market takes time as evidenced by the number of decades it took Kenya to review and pass the new Companies Act (major revisions in 1978, minor revision in 2009 and a major overhaul in 2015). The fact that regulators are sceptical about harmonising regulation may pose a challenge for the adoption of integrated reporting and hence preparers may have a valid reason to delay the adoption of integrated reporting.

Regulators like preparers also, think that integrated reporting will enhance transparency in the annual reports of companies, but they point out that this is possible only if companies are willing to make a more disclosures. The disclosures must also be sector specific and meet the regulatory requirements; they add that cost and other implications will need to be assessed and the perspectives of various stakeholders obtained.

However, regulators' perspectives in relation to integrated reporting differ from those of users. Users do not find integrated reporting as having more value than current reporting. This raises the question as to whether the CMA is aware of research on integrated reporting or whether it specifies integrated reporting to merely appear 'up to date'. By recommending the adoption of integrated reporting, CMA may lead to companies adopting a reporting model that does not serve the users.

This paper has found that, given the context of an emerging market like that of Kenya, regulation may still be a challenge to improving corporate reporting with innovations such as integrated reporting. In addition, regulators perspectives seem to be in line with those of preparers, but contrast those of users in terms of adoption of integrated reporting. Even though regulators 'welcome innovations in corporate reporting' so long as 'they improve disclosure and enhance transparency', the adoption of integrated reporting in an emerging market like Kenya may take time to be realised. This is especially due multiple reporting, multiple regulation, lack of harmonised regulation and lack of willingness to harmonise regulation and little legal support for integrated reporting. Further empirical studies can be carried out to establish the best way regulation can be improved or reviewed to enable the adoption of new innovations in corporate reporting.

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Notes

1 See the GRI G4 Sustainability Guidelines at https://www2.globalreporting.org/standards/g4/Pages/default.aspx.

2 Refer to the OECD Corporate Governance Guidelines at https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf.

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8 https://www.centralbank.go.ke/wp-content/uploads/2016/08/PRUDENTIAL-GUIDELINES.pdf.

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