

**Voluntary Disclosure after the Adoption of International Financial Reporting Standards:
A Study of Companies in the Nairobi Securities Exchange**

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at Strathmore University**



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ABSTRACT

Disclosed reports are usually out of audited accounts and may therefore lack credibility and verifiability. For this reason, they are usually ignored by investors due to their flimsy nature. On the contrary, high quality reports would increase the credibility of disclosed information. Basically, IFRS increase the quality of financial reports making them more credible and verifiable. Thus, the information disclosed based on reports generated from the application of IFRS is more credible and verifiable which in the long run, investors take more seriously and this has urged the management of listed companies to voluntarily disclose information using the IFRS. The study intended to look at the impact of the international financial reporting standard on voluntary disclosure among listed companies the case being the Nairobi Securities Exchange.

Among the study objectives included: an establishment of the voluntarily disclosed items by listed companies after the adoption of the IFRS, an identification of the voluntary disclosure determinants among listed companies and finally the industrial implication of voluntary disclosure post IFRS adoption. The scope of the study entailed companies listed in the Nairobi Securities Exchange from the year 1996-2011 bearing in mind that IFRS was introduced in the year 2000 thus the breaking point. The research design was correlational in nature while the data was secondary in nature and entailed financial reports from the listed companies.

The study concluded that indeed since the introduction of the IFRS, in the quest for transparency and accountability, listed companies have generally increased their voluntary disclosure levels and are benefiting from its fruits such as information asymmetry and investor confidence. Policies and guidelines that promote voluntary disclosure have also been effected after IFRS adoption regardless of the size of a company, governance structure and also the ownership structure. An industrial implication is also created by the adoption of IFRS since the obligation to disclose information can either impact a company that is listed positively or negatively

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DEDICATION

I would like to dedicate this study to my family and friends who have always encouraged me to study more, for their continuous encouragement throughout the study and course.



CHAPTER ONE

INTRODUCTION

1.1 Introduction

The International Financial Reporting Standards were introduced as a common language that can make the accounts of companies understandable all around the world. These standards are a result of growing international shareholding and are especially crucial for countries with dealings in several countries. IFRS was initially began as an effort to harmonize accounting throughout Europe but the value of harmonization and the general concept itself became attractive all around the world. IFRS were founded under the name International Accounting Standards and are sometimes still referred to by that name. IAS was put in place in 1973 and ran up to 2001 when the International Accounting Standards Board took over from the International Accounting Standards Committee the responsibility of setting accounting standards. The IASB has continued to put in place accounting standards since then calling them IFRS (Powers & Needles, 2012).

Hussey (2010) argues that IFRS have been criticized for not being adopted in the United States of America as documented in the Generally Accepted Accounting Principles. Also, it has been numerously criticized in France and that they have not been effective in countries with hyperinflationary economies like Zimbabwe. The IASB offered responses to the first two criticisms but offered no responses to the third case of ineffectiveness in hyperinflationary economies. However, some IAS policies like IAS 29 are still being implemented in their original ineffective forms in Venezuela and Belarus.

Voluntary disclosure on the other hand can be generally defined as the provision of information by a company's management for the benefit of the decision-making of users of the company's annual reports rather than in compliance to accounting principles and Stock Exchange Commission regulations. The extent of voluntary disclosure is dependent on geographical region and position of the company, its management structure and the company's size. The top executives in a firm play a large role in determining the nature of voluntary disclosure that a firm

undertakes. Each manager has their own unique disclosure techniques depending on their own personal dispositions like career paths and experience (Previts, 2008).

According to Roy (2012), voluntary disclosure is beneficial to the company as it helps in penalty mitigation and avoidance, and helps in building compliance in the company. It also helps the company to avert possible criminal sanctions as the activities of the company are known. Moreover, voluntary disclosure aids in the negotiation of a flexible compliance schedule. With voluntary disclosure comes the reduced priority of inspection through forensic auditing and its frequency. Voluntary disclosure also builds a good rapport with regulatory bodies and authorities (Roy, 2012).

Roy (2012) further argues that voluntary disclosure benefits investors to make better capital allocation decisions therefore lower firm's capital costs. The lowering of capital costs also benefits the general economy. It also reduces conflicts of interest in widely held firms and those that have a large number of shareholders. However, it is affected by these same shareholders' demands. Most of the companies practice voluntary disclosure as a result of demands by the shareholders in the firm. Firms, however balance the cost of voluntary disclosure against other costs which may include the cost of procuring the information to be disclosed and decreased competitive advantage.

However, voluntary disclosure has also been down sided by the fact that it is totally discretionary and at the firm's volition. Also, should a discrepancy be reported, it may serve to enhance penalties for violations discovered later on. Also, Design in European Policy may demand that should a company voluntarily disclose information, it should make due diligence publicly available. The practice of voluntary disclosure is also hounded by numerous misperceptions like the exposure of all violations discovered and that it causes increased regulatory scrutiny but at the end of it all voluntary disclosure is not compelled and is only at the volition of a company (Tang, 2005).

A positive correlation has been noted between the levels of voluntary disclosure after adoption of International Financial Reporting Standards in companies. After its adoption, more companies carry out reporting and earnings forecasts. This is as a result of the notion that IFRS system boosts the levels of transparency in firms and organizations in their financial reporting systems.

Moreover, the adoption of the common IFRS among companies brings a similarity in accounts reporting and this therefore means that there can be better comparability between companies (Vu, 2012).

Previts (2008) states that a higher investors' demand compounds the requirement for transparency and this increases the need for IFRS; the adoption of IFRS leads to demand for more transparency from investors and therefore there is more voluntary disclosure among the company's administration. Given that this level of transparency can be achieved by the adoption of IFRS, it is then expected that the adoption of IFRS increases investor demand and therefore a higher investor demand means an increase in voluntary financial disclosure. In short, the adoption of IFRS in this case too, increases the level of voluntary financial disclosure.

On the negative side, IFRS is mostly a principle-based system that is subject to managerial interpretation and judgment. This means that the firms face high litigation risks transitioning from a rule-based system to a principle-based system. This thwarts voluntary disclosure as it creates concern about potential lawsuits should disclosed information be inaccurate. Therefore, companies avoid voluntary disclosure due to this downside of the adoption of IFRS. Heightened litigation risks due to adoption of IFRS impact negatively on voluntary financial disclosure (Vu, 2012).

1.2 Background of Study

Voluntary disclosure as a practice in the Kenyan financial scene has been in play for quite a while and has been successful especially among listed companies in the Nairobi Securities Exchange. Studies that have been carried out on the functionality of voluntary disclosure have revealed it working effectively due to a variety of issues like the government structure, ownership structure of the company, control variables of the company and the company's characteristics. The practice of voluntary disclosure among listed companies is hindered by the reality that executives in firms cannot measure the accuracy of the decisions made and know fully what is to be disclosed and what not to be disclosed. The agent involved in the dealings of a firm therefore decides to exploit the lack of observation of his actions to achieve his own personal goals. Formal contracts have to be drawn up to avoid agent-shareholder conflicts. (Dulacha & Hancock, 2006)

Among Kenyan listed companies, voluntary disclosure is increased in the companies that have foreign ownership. Also, the presence of an audit committee extends the level of disclosure. However, in family controlled firms, there is a lower level of disclosure relative to the position and proportion of family members on the board in the firm. A higher proportion of family members mean minimal disclosure levels while a lower proportion increases disclosure. In companies with multiple shareholders the level of disclosure is increased because the managers have to prove that they are acting in the best interests of the company. However, where there are only a few shareholders, the level of disclosure is generally low because they do not have to prove anything as the few shareholders can monitor everything for themselves (Dulacha & Hancock, 2006)

The adoption of IFRS in most studies has led to the increased quality of financial reporting in many countries globally. Its adoption in Kenya has been especially monitored to detect its effectiveness in a state that is trying to operate financially at an international level, given the recent increase in its financial sector reforms. Given that recent trends in the quality of accounting have increased since the institution of IFRS it is seen that system has been effective in Kenya. The presence of a number of limiting alternatives to IFRS causes an increase in the quality of accounting in the country. Many critics earlier argued against the institution of IFRS in developing countries stating that rather the characteristics of the local business environments and individual frameworks should be used to determine financial reporting but the success of IFRS in Kenyan listed companies obviously shows its applicability in third world and developing countries (Outa, 2011).

Since their inception in 2001, IFRS policies have ensured the smooth deliberation of transactions between organizations. Unlike other deficient policies, the IFRS clearly outline how transactions should be reflected in financial reports and this is a great advantage over individual company financial reporting standards. Kenya's listed companies especially those that have dealings with international bodies have taken advantage of the standard to foster financial confidence with their partners. Given that IFRS translates the otherwise complex accounts of a firm into commonly understood financial reports globally, IFRS has enabled Kenyan listed companies to trade on an international platform. This has definitely led to a higher and better quality of

financial reporting in the country. The IFRS introduced have enabled the listed companies in Kenya to deal transactions with international companies without the hindrance of incomprehensible financial accounts between the relating companies involved (United Nations, 2008).

1.3 Problem Definition

Disclosed reports are usually out of audited accounts and may therefore lack credibility and verifiability. For this reason, they are usually ignored by investors due to their flimsy nature. On the contrary, high quality reports would increase the credibility of disclosed information. Basically, IFRS increase the quality of financial reports making them more credible and verifiable. Thus, the information disclosed based on reports generated from the application of IFRS is more credible and verifiable which in the long run, investors take more seriously and this has urged the management of listed companies to voluntarily disclose information using the IFRS.

A study conducted by George Iatridis (2011) had the purpose of determining how disclosures in the pre-adoption period had affected the transition process of UK listed firms, to identify the financial needs necessary to provide voluntary IFRS disclosures and whether disclosures in the pre-adoption period leads to more value in relevant numbers. This study mainly proved that firms that voluntarily disclosed information before IFRS exhibited higher value relevance. Another study conducted by Ronen and Yaari (2010) compared which countries had better voluntary disclosure levels; those that made IFRS mandatory or those that did not. It was found that firms that adopted IFRS in 2005 experience a higher likelihood of earning forecasts and basically are more inclined to voluntary disclosure than those that adopted IFRS later on. Therefore, IFRS was proven, by this study; to boost voluntary disclosure. A study by De La Bruslerie and Gabteni (2008) conducted among French listed firms to determine whether the process of filtering information voluntarily disclosed by firms was modified by the IFRS introduction and adoption concluded that the introduction of IFRS did not alter the voluntary communication policies.

The study on UK listed firm transition post IFRS adoption concluded that firms that had voluntary disclosure before introduction of IFRS had higher value than those that did not is

contradictory to the study conducted among French listed companies which concluded that pre and post IFRS introduction did not have any effect on the voluntary disclosure policies among the companies listed. In light of such findings, a prerequisite for further investigation exists on the kind of information that listed companies voluntarily disclose and what is not disclosed post IFRS adoption. Further also, considering the inconclusive information on the study about countries that made IFRS mandatory among listed companies, this study intends to satisfactorily look at the determinates of voluntary disclosure post and pre IFRS adoption together with information on the industries among listed that were affected by the IFRS introduction the case being the Nairobi Securities Exchange.

1.4 Research Objectives

The research was guided by the following objectives:

- i. To establish voluntarily disclosed items by listed companies after IFRS adoption
- ii. To identify voluntary disclosure determinants among listed companies pre and post IFRS adoption
- iii. To identify the industrial implication among listed companies post IFRS adoption

1.5 Research Questions

- i. What are the voluntarily disclosed items after IFRS adoption at the Nairobi Securities Exchange?
- ii. What are the voluntary disclosure determinants pre and post IFRS adoption at the Nairobi Securities Exchange?
- iii. What are the industrial implications among listed companies post IFRS adoption?

1.6 Research Proposition

1.6.1 Null Hypotheses

- i. H_0 1- Voluntary disclosure policy post IFRS adoption has not changed
- ii. H_0 2- Voluntary disclosure pre and post IFRS adoption have remained the same

- iii. H₀ 3- Industries have no voluntary disclosure implication post IFRS

1.6.2 Alternative Hypotheses

- i. H₁ 1- Voluntary disclosure policy post IFRS adoption has changed
- ii. H₁ 2- Voluntary disclosure pre and post IFRS adoption have not remained the same
- iii. H₁ 3- Industries have voluntary disclosure implication post

1.7 Scope of the Study

The study was intended to investigate the impact of the International Financial Reporting Standard on voluntary disclosure among listed companies the case being the Nairobi Securities Exchange. Data was empirically collected and analyzed based on the financial statements of the listed companies at the NSE before and after the adoption of the IFRS thus between the years 1996-2011. Notable trends and significant factor changes were taken into account for the companies that have been listed before and after the adoption of the IFRS which were 54 companies in total.

1.8 Significance of the Study

The study will be of significance to the stakeholders of listed companies especially those in the Nairobi Securities Exchange since they will be able to explore the determinants of voluntary disclosure pre and post the IFRS and what impact it has on the day to day running of their organizations. Stakeholders will be able from the findings of the study to make strategic decisions that will be for the best interest to their organizations.

The study will also be significant for policy makers as well as concerned parties on the effectiveness and development of the IFRS since its inception and what significant difference the standard has been able to make in financial reporting. The study will also be able to empirically reveal the shift in behaviors among listed companies with regards to voluntary disclosure considering the dawn of the IFRS which will provide insight for both scholars and academicians in the field of financial accounting.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section was a review of the literature and relevant documented materials with regards to the study. Voluntary disclosure theories purporting explanation of the phenomenon were discussed as well as the organizational characteristics that impact voluntary disclosure. The challenges of voluntary disclosure after the IFRS inception were also closely discussed together with a formulation of the conceptual framework for the study.

2.2 Theoretical Framework

A number of theories have been presented to explain voluntary disclosure in companies. All these theories link the various determinants of voluntary disclosure explaining how they affect voluntary disclosure in a firm.

2.2.1 The Agency Theory

The agency situation is whereby one or more persons (principal) engage another person or persons (the agent) under a contract to perform some service for them including delegating decision-making authority to the agent. Agency costs arise from the notion that the agents and the principals are working towards different interests and therefore the principals have to pay monitoring costs to limit the agents' irregular activities. This agent-principal relationship is further compounded by the information asymmetry problem whereby agents can access more company information than the shareholders. This agency problem can be mitigated through the adoption of voluntary disclosure by the managers in an effort to align their interests with those of the shareholders. Hereby, agents disclose more information voluntarily so as to reduce agency costs (Yadav & Kharti, 2013).

2.2.2 Signaling Theory

This theory was initially put in place to clearly explain the information asymmetry situation but it is nowadays used to explain voluntary disclosure in corporations and their activities. As a

result of the information asymmetry problem, corporations signal certain information to investors in an effort to show that they are better than other companies in the market so as to attract investors and to boost their reputation in the market scene. Voluntary disclosure is one of the signaling means. Companies disclose more information than that which is required mandatorily by law and regulation so as to show them more viable and attractive to investors. Given that a company's cost of capital is inclusive of a premium for investor's uncertainty in any given project, the probable inaccuracy or insufficiency of information makes companies aim to reduce this premium; this is done by voluntarily divulging more information to investors so as to increase their certainty in a project (Barker, 2011).

2.2.3 Legitimacy Theory

This theory states that a company should only exist if its values are perceived as matching those of the community it is operating in. Basically, the legitimacy theory presents the operation of a company as a social contract between the firm and the society it operates in. Therefore, the company has to inform outside audiences of its 'what's, 'who's, 'when's, 'how's and 'why's. This means that the society's knowledge is crucial to the legitimate operation of the company. Therefore, in a bid to solidify their legitimacy, companies disclose more information to the society so as to show that they are operating in an aligned movement with the society. Given that this legitimacy is largely dependent on the community's perception of the company, the firm will have to disclose as much information as is necessary to change the perceptions and opinions of the members of the society toward the company otherwise it is not a legitimate firm. This explains why some companies engage in voluntary disclosure for legitimization purposes (Jones, 2012).

2.3 Determinants of Voluntary Disclosure

2.3.1 Governance Structure

A company may decide to run its own affairs in a secretive manner that is not transparent to all except its shareholders depending on its governance structure and its own policy and how its management decides to run the company. However, given the failure of this mode of governance with the failing of large companies like Enron, a more transparent approach is usually advised

under the system of voluntary disclosure. Commonly accepted systems of corporate administration are also recommended for corporations. This also increases competitiveness between companies and attracts foreign capital investments. The aspect of governance structure has proven to be an important underlying factor in all global and corporate financial crises or successes. As such, it comes as little surprise that a company's voluntary disclosure would be influenced by its governance structure. Satisfactory disclosure of facts is crucial because without such information, it is not possible to accurately judge the opportunities and risks of investment in a particular business venture. Companies fulfill this demand by voluntarily supplying information in their annual reports to aid in the proper deduction of profitable business ventures (Udin, 2010).

The problem between agents and shareholders also impacts on the level of a company's voluntary disclosure because the agents would rather not disclose for their own benefit. The agency problem occurs from the conflict of interests between shareholders and managers or agents where managers have the tendency to maximize their interests at the expense of shareholders' welfare. When the proportion of non-executive directors in a firm is high, the level of voluntary disclosure increases but should there be a larger proportion of executive directors in a company there is a decrease the level of voluntary disclosure (International Monetary Fund, 2006).

According to Udin (2010) companies that are governed by families tend to vary in voluntary disclosure depending on the composition of the governing board. The presence of more family members on the board decreases voluntary disclosure in companies because they have greater access to information about the company and have no intention of sharing this information with anyone else outside the company. This situation is openly reversed in the case of few family members on the board. This means that those with access to the company's information would easily share it out should they feel that doing so would be for the best interests of the company. Therefore, this explains why fewer companies that are run by families are compliant to voluntary disclosure.

Different schools of thought are entertained about board size in respect to voluntary disclosure. A large board size is viewed as dysfunctional and easy to be manipulated by the top managers in

a firm and thus be unable to criticize the decisions of the top managers who will in effect carry out their decisions to their benefit secretly. This is an obvious disadvantage for voluntary disclosure. However, a small board size would mean that the firm's affairs are easily and closely monitored. This is because there is little or, in some cases, no contradiction in thinking and making decisions and objectives among directors. Small board sizes can be therefore viewed as positively impacting on voluntary disclosure since company performance can be openly, objectively and truthfully discussed. Therefore, small board size is better for close and quality monitoring and better disclosure. Wherefore it can be concluded that, a large board size equal lower levels of voluntary disclosure whereas a smaller board size, as is recommended for most international corporations, equal higher levels of voluntary disclosure (Organization for Economic Cooperation and Development, 2004).

Another factor that impacts on voluntary disclosure is the setting up of audit committees. The technique being that the members of audit committees are independent members, there is little secrecy in the information of a company and thus there are higher levels of voluntary disclosure. Therefore, should a company lack an audit committee, the levels of voluntary disclosure decrease. The levels of disclosure especially increase if the members of the committee believe that their disclosure is in an effort to help the company to get the best profits without incurring unnecessary losses or evade fraud or some other fraud risk (Udin, 2010).

Companies that have a separate position of Chairman and that of a CEO generally have a greater level of voluntary disclosure rather than those who have the position of Chairman and CEO as jointed. It is evident that an independent Chairperson can monitor the activities of the CEO and the managers among other firm executives thus increasing the level of voluntary disclosure for a transparent operation of the firm. However, should the company have a jointed position of Chairman and CEO, then there is little monitoring of the company's managerial top brass' activities. Moreover, there is the probability of the CEO being manipulated by the other company top managers for their own personal and selfish goals at the expense of the firm's advancement. Therefore, the separation of the post of chairperson from that of CEO increases the levels of voluntary disclosure whereas the absence of the post of Chairperson or it being jointed with that of CEO decrease the levels of voluntary disclosure within the firm (Naciri, 2008).

Audit quality is another factor that increases voluntary disclosure in a company. Audit quality is the joint possibility of detecting and reporting financial statement errors in the accounts of a company. Big independent audit firms elevate the chances of providing credible audit information. The probability of credible audit information being produced increases the chances of inaccurate information and data entry detection thus increasing the level of transparency of the firm. Moreover, these big independent firms also disclose a lot of information from the firms so as to relieve themselves of any legal liability. Given that their audits are credible, most often the audit results are accurate and thus the large information disclosed is true and the firms would rather prevent disclosure from audit firms and prefer to disclose their information themselves. On the other hand, firms that are audited by small incredible audit firms are more given to lack of transparency as the information obtained may not be accurate and the audit firms therefore shoulder the legal liability of any information disclosed. Therefore, higher audit quality leads to higher voluntary disclosure while low audit quality leads to lower voluntary disclosure (Tabb, 2004).

Where the government owns a large number of companies, there are lower levels of voluntary disclosure because the government own larger shares in the companies that they own. However, if most of the companies are privately owned, then the levels of voluntary disclosure are heightened because then the administration is more desiring of results and profits and advancement for the company. Therefore, they will ensure that the information of the company is disclosed in time for it to be beneficial for the company's decision making in order for the best opportunities to be exploited. Also, most private companies have the adequate capital for the voluntary disclosure of information concerning their organization. The company's administration is not afraid to use the resources necessary in procuring information to be disclosed if it will be used to assist the company to grow and maximize profits. Therefore, it is that higher dominance of shareholding by the government reduces levels of voluntary disclosure whereas higher dominance of a company by the private sector leads to higher levels of voluntary disclosure in the firm (Naciri, 2008).

2.3.2 Ownership Structure

The ownership structure of a business company impacts greatly on its predisposition towards or against voluntary disclosure. This is greatly dependent on the company's ownership opinions and different managerial techniques. The ownership structure of a firm has a lot to do with the approach that a firm or institution has towards disclosing their information for or against their own advantage in their indulgence in business. This therefore obviously explains that the ownership structure is one of the major factors at play in determining the level of voluntary disclosure indulged in by a company. Whether a firm is widely held or just has a few shareholders as its ownership would largely determine the voluntary disclosure a firm or institution undertakes. Ownership structure determines the level of monitoring and therefore the level of voluntary disclosure by the firm (Luo, 2003).

Companies that are several shareholders are prone to higher levels of voluntary disclosure. This is because the managers of the company are not the ones who own the company and run it like stewards for the shareholders. They therefore have to prove that they are running it transparently and in the best interests for the profits of the company and by extension that their loyalties are with the shareholders of the company. As such these managers are more dispensed to disclosing information so that they can prove that they are not acting on a self-centered front but with the firm's best interests at heart. However, in companies that are not widely held, some of the managers or even all of them are shareholders and have no need to disclose company information as they, being the management and owners of the firm, it is naturally expected that they would act in the best interests of the company. Consequently, it can be concluded that wide ownership structure of accompany boosts voluntary disclosure in a company whereas compacted shareholding undermines voluntary disclosure in a firm (Massis, 2012).

Low managerial ownership leads to high voluntary disclosure levels. This is because when few managers own the company, they can easily raise the required agency funds from the actual owners of the firm without much ado. Therefore, the firm can meet the costs of disclosure and procuring the information to disclose and the cost of disclosing it. However, if there is high managerial ownership of the firm, the owners, who are also the managers, are much more reserved with their company's information and prefer not to divulge and therefore avoid doing so

as much as is reasonably possible. The owning management would also rather not spend money which they deem utilizable in other prospects; in procuring disclosure information and much more prefer to acquire new assets with it than divulge company information. Subsequently, it can be concluded that low managerial ownership leads to higher disclosure levels while higher managerial ownership leads to lower disclosure levels (Uddin, 2010).

In family owned companies, the agent-owner friction is more severe. This is because family members would control the ownership of the company and therefore have more access to company information. Moreover, family managerial systems lead to higher levels of disclosure and therefore less chance for incredulity. Family members have little incentive to divulge it to non-family members of the administration. Conversely, should there be lower levels of proportionality of family members in the company's administration, the agents have to show that they work in the best interests of the company and therefore they have more incentives to disclose company information. As a result, it is that firms with proportionally greater family control and ownership have less incentive to disclose firm information while those with proportionally less are more given to greater levels of voluntary disclosure (Massis, 2012).

Naciri (2008) states that large companies that are internationally owned have different voluntary disclosure rates than those of locally owned entities. These large international companies tend to indulge in voluntary disclosure so that their fellow branches can view their activities and keep up to par with them. Therefore these companies are understandably, more pro-disclosure. However, smaller, locally owned companies have no need to disclose the information concerning their organization as they have no other entities that require knowing this information. Therefore, the smaller companies are naturally disposed to non-disclosure. Moreover, large and internationally owned companies have to regularly keep up with their owners' demands that they disclose information about their activities. This is obviously not the case in locally owned companies and therefore it is that; international ownership of companies predisposes them toward voluntary disclosure while local ownership of companies predisposes them against voluntary disclosure (Smid, 2007).

Concentrated ownership structure means higher levels of monitoring in the firm. Diffused ownership is viewed as a leeway for minimal supervision and monitoring. This simply means

that there is less conflicts of interest among the owners of the firm in decision making and analysis of firm performance. Therefore, there can be speedy agreement on whether or not to disclose corporate information. Given that the disclosure is usually in the firm's best interests, the administrative ownership of the firm can easily agree to disclose company information so as to secure the company's benefit. However, where ownership is diffused and spread out through the firm, there are lighter chances for a pro-disclosure approach because there is little supervision and therefore no transparency intended incentive for disclosure. Consequently, it is that; the higher the proportion of shares held by the top managerial and ownership shareholders, the higher the extent of voluntary disclosure. Retrospectively, the lower the extent of proportion of shares held by the top managerial and ownership shareholders, the lower the levels of voluntary disclosure in the firm (Vu, 2012).

Vu (2012) further adds that the practice of voluntary disclosure is hindered by the reality that executives in firms cannot measure the accuracy of the decisions to be made and know fully what is to be disclosed and what not to be divulged while taking into consideration still, the interests of firm owners. This is because, as it can be seen; even this management of the firm is greatly influenced by the decisions and the type of ownership of a company and the ownership's relation to voluntary disclosure in the firm. This clearly evidences that the level of voluntary disclosure that a company involves itself in is greatly impacted on by its ownership structure.

2.3.3 Organization Size

All companies that operate with a view to make financial gain will eventually do so. Profit making comes with increase in capital margins and thus newer scopes for investment. This means that as a company achieves functionality in new areas, it expands. The growth of a company is a major determinant of its dispensation to voluntary disclosure. Larger companies are viewed as more given to voluntary levels due to a variety of factors. Smaller companies are viewed as more anti-voluntary disclosure and even maybe disclosure-resistant because of predisposing factors within their control or out of their reach (Haddad & Mardini, 2013).

Large companies have elaborate governance systems and therefore are given to have separate Chairman and CEO posts which is a factor that ensures higher levels of voluntary disclosure. Moreover, the administration of larger companies is made that elaborate to ensure that the

running of the company is straightaway geared towards maximization of profit and increasing company viability. Small companies however, have simple administrations mostly aimed at stabilizing the company on the financial scene as they are almost always new companies. These companies are mostly anti-disclosure because they do not have good knowledge of their competition and would rather not give them competitive advantage (Sukthomya, 2011).

Larger companies are audited by large independent companies that are credible. These audit firms disclose a lot of information in order to exonerate themselves of all legal liability therefore pre-disposing the large companies to voluntary disclosure. Smaller companies are audited by small incredible companies that obviously shoulder legal liability for the accuracy, or inaccuracy, of disclosed and these audit firms would rather not take the risk of disclosing inaccurate information therefore obviously pre-disposing these small firms towards anti-disclosure. Consequently, it is that the size of the audit firm that audits the small or the large company is a pre-disposing factor towards voluntary disclosure (Vu, 2012).

Smaller companies have a large number of shareholders with small differences in the margins of their stock. As such, their boards have a lot of executive members. This causes a lot of friction in the company's management in form of conflicts of interest, differing opinions, decision-making and thinking. There is also the problem that each member of the board is after their own interests and this causes the company to prefer non-disclosure. This is not the case in larger companies that have already structured their company's administration in the order of shareholders with the largest stock who are only few. In this case, there is little conflict among the management and decisions that suit the organization are speedily made. This means there is a higher need for transparency for the lower level firm shareholders and the firm's administration will easily agree to divulge information about the company upon conviction that that would be in the firm's best interests (Venkataraman, 2008).

Large companies indulge in disclosure to increase the chances of investment by other entities. When their activities are known, they increase the company's viability and the probability of other companies investing them. This is especially the case when the company intends to undertake a certain venture but does not have sufficient funds for it. The process of disclosure is then taken by publicizing the company's stock portfolio so that intending investors can view it as

viable and invest in it thus giving the company the required capital for the new venture. However, small companies do not indulge in this venture because they operate within slim capital margins that are sufficient only for one project that the company dedicates all its energy and resources toward. Therefore, these companies have no need for publication of their affairs. Therefore, it is evident that larger companies would be more disposed toward voluntarily disclosing firm information whereas small firms which have no need for new investors, would be more against voluntary disclosure (Cumming, 2010).

2.4 Voluntary Disclosure Industrial Effect

A number of listed companies are usually affected by their various levels of voluntary disclosure depending on the extent, purpose and mode of voluntary disclosure that they engage in. These companies are possibly affected negatively or positively and to their benefit by their voluntary disclosure. However, a larger number of companies are mostly affected adversely by voluntary disclosure. These companies may therefore be even be ruined and destroyed by the impact of the information that they disclose to other parties should the information fall into the wrong hands. Moreover, should the information disclosed be inaccurate, the company risks losing credibility and even its viability to possible investors and therefore losing their profitability. This of course, points to the undeniable fact that companies need to be careful with the kind of information they disclose voluntarily to avoid its adverse its adverse effects (Cumming, 2010).

Investor uncertainty is a serious problem that is supposed to be solved by voluntary disclosure through affirming to the investor that the firm is invest-worthy in its financial nature and current standing. The expected response is in turn, supposed to be the investor taking the investment upon assurance of the company's viability. However, in some cases; the investors simply decide not to invest in the company even after being ascertained to its viability. This situation causes the firm's disclosed information to simply be 'out-there' in the financial audience and can be used by the company's competitors to achieve an advantage over the company. In a literal sense, the company is left vulnerable to competition and unprecedented risk due to the exposure of its information. This situation does not only affect the firm but also on its level of voluntary disclosure. A firm may decline to disclose its information if it is uncertain of investor response (Baker, 2011).

Listed companies do not, also, always have the necessary funds for disclosure of information. The costs for procurement may eventually hurt the firm and its capital expenditure margin. This is because the effect of the information disclosure may not be fully known and guaranteed for by the firm. Should the effect be negative; it would require more financial resources with which to reel from the damage caused and recover incurred losses if any. Moreover, the costs of procuring information to disclose is often laborious and taxing even for the average pro-disclosure firm. Since voluntary disclosure is usually in an effort to woo investors, should the investors reject the prospect of investing in the company; the disclosure venture is seen as a failure and the costs undertaken for procurement of information to be disclosed is obviously taken as a loss. Therefore, especially for small companies which operate within a thin capital margin, the disclosure process can be especially risky for them (Haddad & Mardini, 2013).

According to Luo (2003), there is also the challenge of proprietary costs that is incurred as an effect of voluntary disclosure. Competitor companies can take the information disclosed and use it to their benefit. This may be to the detriment of the disclosing company and may serve to cause the company more losses. Companies may withhold information if they know it can be used for their own competitors to forge further ahead at their own expense. However, not every company has this foresight and thus, the information they disclose is used by their competitor companies against them having that these companies have undertaken proprietary costs. This competitive advantage that the competitors acquire is an operational risk that the companies that engage in voluntary disclosure often face and is potentially crippling for listed companies.

Voluntarily disclosed information can be potentially damning for companies themselves. Especially in a situation where the company is disclosing information for its market participants and outsider audiences like the society possibly in an attempt to keep to theoretical principles like that of legitimacy. The information disclosed may be acquired from an audit that detected a small and otherwise insignificant discrepancy that was duly rectified. The audit itself however, may not acknowledge the rectification thereof. As such, the data disclosed on the basis of information from this audit may call the credibility of the entire listed company and it may begin to lose investor viability and even its profitability as a whole. Therefore, it is that the information disclosed by a listed company be in its own worth; detrimental to the company's operation. This

is obviously a risk and hazard that meets many companies that are involved in voluntary disclosure. The compounding of the matter is if the information disclosed is inaccurate and the audit itself was incredible. This is mostly the case in small companies that are audited by small incredible firms that may not necessarily produce accurate results (Jones, 2012).

It is therefore an open reality that the effect of voluntary disclosure may work for the benefit of a listed company or to its impairment. Therefore, it is that companies that indulge in voluntary disclosure do so at their own discretion and take maximum care in their disclosure of firm information that the practice does not end up as a tool for the firm's destruction. This way, the information's serves the firm to its advantage in terms of investor viability and profitability.

2.5 Voluntary Disclosure Information Post IFRS Implementation

The main purpose of the introduction of IFRS was for transparency and accountability: making the accounts of listed companies to be common in the world over so that there can be specific standards for reporting financial records thus malpractices in financial reporting can be avoided. This has increased the practices of voluntary disclosure among companies. Most listed companies have then taken the initiative upon themselves to ensure that they disclose as much information as is safe so as to ensure that they look credible as possible. Some listed companies even do this to comply with the theoretical principle of legitimacy in their operational activities. All these listed companies that practice voluntary disclosure do so through different avenues. The main avenue however, is Corporate Social Responsibility (CSR) (Dulacha & Hancock, 2006).

Listed firms with director ownership tend to disclose less CSR. If a company is mostly composed of non-executive directors then it discloses less CSR. However, should it be composed of more executive directors or those with multiple directorships, there is a positive deviation in the level of CSR. There is also a positive relation in the proportion of independent directors and the level of voluntary disclosure in terms of CSR. This however is not the case if the directors of the company are also the major shareholders of the listed company. Therefore, this shows that the relationship of listed companies with voluntary disclosure through CSR is highly dependent on their governance structure and the composition of its management (Luos, 2003).

Massis (2012) states that some listed companies even publicly disclose their financial reports to their market participants. These listed companies release their financial reports to their market participants in compliance to IFRS principles of transparency and accountability. Therefore, after the compiling of financial reports they release their standardised reports in the form of periodical journals or even as advertiser's requests in the print media. These companies utilise this method as a mode of voluntary financial disclosure. This ensures that their reports are out for their market, investors and (in the case of agent-principle situation) the principles to see and review. Moreover, some listed companies release annual reports as their mode of voluntary disclosure.

IFRS has also presented itself as a very effective way of dealing with the information asymmetry situation between principles and shareholders. IFRS provides a simpler and more common method of compiling financial reports in listed companies therefore; more companies can explain their accounting records to shareholders without there being any necessary information being left out. This makes certain that the principles know as much information as they need to know and that the agents give as much information as they are required to give. Hereby, the agents do not have to always have to go out on a limb to prove that they are working for the company's best interests and the company's shareholders do not have to always have to doubt the interests of the agents as being parallel with theirs (Outa, 2011).

Audit reports are also presented and disclosed to shareholders as a form of voluntary disclosure. Listed companies carry audits in accordance to IFRS which are therefore transparent for the company's shareholders. These reports are therefore duly presented before the company's principles during the Annual General Meeting of the firm. Given that the whole point of IFRS is to ensure transparency and accountability in the firms' operations and financial reports, agents submit audits as disclosed information which shows whether the compiled reports of the listed company is a true and fair view of the company's state of affairs. In terms of audits, listed companies should ensure their audits are carried out according to international audit standards so that they meet the IFRS principle of transparency and accountability. This way, the information disclosed can be counted upon to be credible and reliable (Outa, 2011).

The adoption IFRS among listed companies has been a very efficient way to curb unaccountability and shady dealings within the listed company's financial reports. Moreover, the

information released in financial reports is accurate enough to serve the best interests of the listed company in terms of viability and profitability. This also goes a long way in the listed company's investor attraction and also its reputation. For companies that are intent to expand and need investors to fund their expansion programmes, the use of IFRS can be used to assist them to simplify their accounts and present them as credible as they are for consideration and they can then be invested in (Powers & Needles, 2012).

IFRS systems also help in the harmonisation of accounts and financial reports of international listed companies. This way, their accounts and financial reports can be put together with ease without having to fragment the reports into various reports for each division in each different company because they have been put together by the same standards. Therefore, when the point for voluntary disclosure comes up, the information from all the companies can be put together and disclosed as one therefore explicitly disclosing the viability of the whole company (Outa, 2011).

2.6 Challenges of Voluntary Disclosure among Listed Companies Post IFRS Inception

The adoption of IFRS has been met by several challenges as it integrates into the system of operations of listed companies the world over. Its adoption has not been without challenge and this can be seen by the variety of challenge and hindrances that hound it. Many developing countries have recently adopted IFRS as their basis for reporting although some countries have problems coping with the requirements of IFRS adoption. Though IFRS is gaining momentum in its application, there are a number of obstacles that require solving for the smooth operation of IFRS. Therefore, each listed company adopting IFRS systems must solve the hindrances as quick as possible while at the same time learning as much as possible from the experience (Vu, 2012)

The transition to IFRS from individual corporate financial reporting systems is hampered by the fact that IFRS is a principle-based system without actual rules of operation. The previous systems utilised by a listed company before are rule based. This causes a disparity because rules give specific definite guidelines on operation and application and can therefore be competently adhered to. A principle-based system, IFRS that is, does not have specific guidelines and is therefore prone to managerial misinterpretation and judgement. This means that the application of IFRS as a system of making financial reporting standards common and a universal language

for listed companies' financial records is then defeated. This is because each managerial administration in a company understands and applies IFRS principles based on its own understanding. Therefore, the language is no longer common because each listed company is, in the sense, speaking its own financial dialect albeit in the same language. Voluntary disclosure is hereby hindered because of a lack of understanding between companies (Luo, 2003).

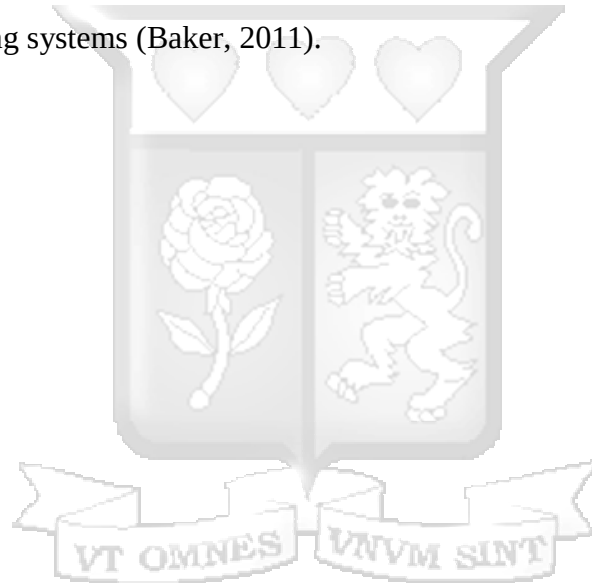
The application of IFRS is still in its infancy among listed companies and can therefore not be relied on for much transparency although that is meant to be its final achievement as a harmonising reporting system. The information given by IFRS is not trusted to be fully credible because of its major shortcoming of being a principle-based system. Therefore, listed companies that operate with IFRS would rather not disclose this information that is acquired from IFRS because it is viewed as shaky and unreliable. Most companies would rather use a more familiar system based on rules and their applications. This therefore undermines voluntary disclosure among listed companies that adopt IFRS (Naciri, 2008).

Application of IFRS further compounds the information asymmetry problem which is a severe problem that hinders voluntary disclosure. IFRS is a professional system of financial reporting and needs trained personnel to work with it. This means that only the accountants who work with IFRS will understand and effectively interpret financial reports to their superiors. Given the agency situation, the managers do not prefer to reveal this information to the principles of the listed companies. This information asymmetry problem is what causes low levels of voluntary disclosure among listed companies. The adoption of IFRS therefore causes the information asymmetry problem to increase therefore decreasing the indulgence of a listed company in voluntary (Jones, 2012).

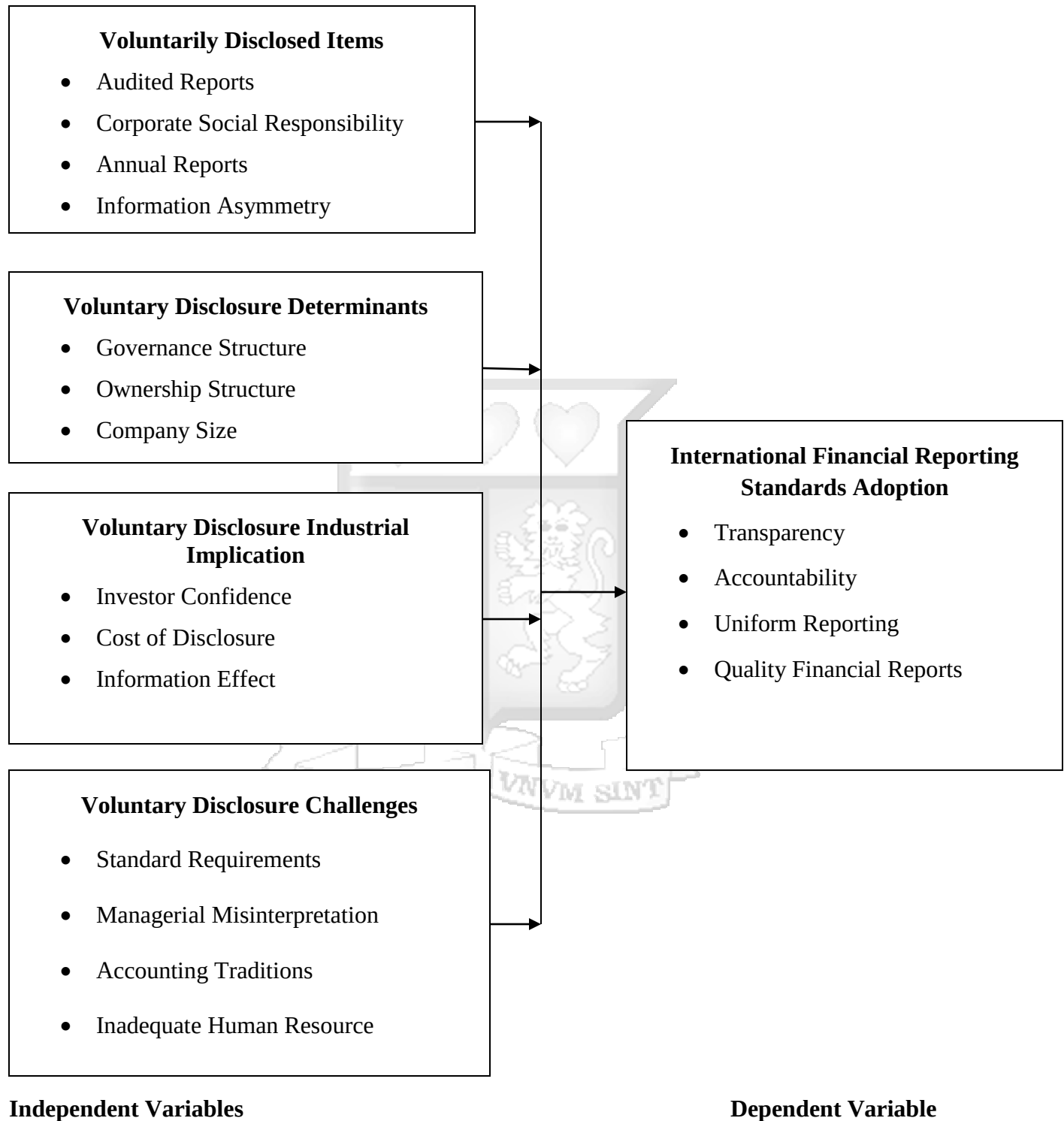
Different accounting traditions in different countries among their listed companies results in a difference in the level of reporting financial records among companies. This is what results in a lack of comparability in the financial reports of a country. Therefore, although the required transparency is achieved; the comparability is absent and thus the whole point of voluntary disclosure is undermined. Moreover, given that the varying accounting traditions cause different 'dialect' in the language of financial reporting, it is then an undermining factor for the voluntary disclosure of listed companies as a tactic for wooing foreign and international investors. This is

another challenge that arises with the adoption of IFRS in developing countries among their listed companies (Hussey, 2011).

As aforementioned herein, it is not the realisation of the various challenges that accompany the adoption of IFRS among listed companies that makes the difference. This in fact, does little or nothing to salvage the situation. Consequently, listed companies should endeavour to do all that lies within their domain to ensure that they comply with the principles of IFRS as set by example by the European countries that adopted the system upon its inception. This would go a long way in giving listed companies a how-to-do-it approach for the solving of the challenges associated with the adoption of IFRS system and their negative impact on voluntary disclosure. This way, listed companies can practice voluntary disclosure even on an international scale because of the harmonisation of reporting systems (Baker, 2011).



2.7 Conceptual Framework



2.8 Operationalization of Variables

Voluntarily disclosed items that were covered by the study included the financial reports that were released by the listed companies either on an annual, semi-annual or quarterly basis. Audited reports in the various units and infrastructure of the companies, information asymmetry which came afterwards after listed companies started to adopt IFRS. And also among the disclosed items was corporate social responsibility. Among the determinants of voluntary disclosure among listed companies that were covered by the study included: the governance structure that is in place among listed firms, the ownership structure that was in place among the companies key being whether family owned or not, board with executive members, firms with many shareholders and also whether a company is state owned or not. The size of the company was also a significant determinant of voluntary disclosure. The industrial implication created by voluntary disclosure was also a variable created by the study and among the indicators included: investor confidence, the cost a company has to incur both financial and administrative in the process of voluntary disclosure and finally the effect that the disclosed information will case on the respective industries that the firms are involved in. The challenges faced in the process of listed companies being IFRS compliant was also a variable covered in the study and the indicators included: the high threshold standard required by the IFRS, probable managerial misinterpretation on IFRS implementation, accounting traditions that companies do not want to walk away from to adopt a new system and finally the existence of inadequate human resource to implement the standard.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was a presentation of the study methodology intended for use in the course of the research investigation. The section included the design of the research, the target population which resulted in the sample for the study, the data collection and analysis procedures, the reliability and validity of the assessment tool and finally ethical considerations.

3.2 Research Design

The study applied correlational research design which stipulates that events are related and the underlying principle is that when certain events are related, (variables) higher chances are that, event X leads to event Y. Correlational Research is simply identifying which variables are related and how they are related so that when one changes, an idea can be formulated on how the other variable will be affected. The goal of any correlation research is the identification of existing or perceived relationship among variables. In the case of this research, the dependent variable was IFRS adoption while the independent variables were disclosed items, disclosure determinants and industrial implication.

Correlation research in this study was in two dimensions; positive correlation and negative correlation. A positive correlation indicated that both the variables (dependent and independent) were affected in the same way and react just as well. That is to say that, X's increases means an increase for Y while a decrease in X means a decrease in Y. However, negative correlation was inverse of positive correlation which is also called inverse proportionality. That is, an increase in X means there was decrease in Y whereas a decrease in X means there was an increase in Y. The researcher determined certain trends by using correlational research enabled a determination of expected results in this study.

3.3 Study Population

A population in research is described as the scope of objects whether animate or inanimate that a researcher is meant to deal with; the choice of population for this study was dependent upon the

objectives of the study which dealt with companies listed in the Nairobi Securities exchange more specifically their financial records from the year 1996-2011. All companies in the NSE are required by policy and law to have audited financial reports from reputable and respectable audit firms thus the information needed can easily be accessed. The study focused on companies that were listed pre IFRS adoption and afterwards to see whether there were any significant changes and relationship. The number of companies listed was 38 in number thus making the research population.

3.4 Study Sample

A sample is simply a part of the whole population taken to represent the same population in order for them to be studied. The study applied purposive sampling method which is non-probability sampling technique. The researcher applied upon the sampling method to make an advised judgement on the companies listed at the NSE pre IFRS adoption and after. Purposive sampling does not aim at making generalisations of the characteristics of the population being investigated but rather, to confirm the legitimacy of study objectives. Purposive sampling is best used to achieve independent conclusions that are free from generalisations of the characteristics of the entire population. Also, is applicable in the proving or disproving of theories and hypotheses that have been presented in a study and ensure that the study is what it purports to be. The sample for this study was all the financial records of the 38 listed companies at the NSE.

3.5 Data Collection Instrument and Method

The study used purely and only secondary data that was collected from financial reports and record of the sampled companies. The disclosure items that were sought from the financial statements included general and strategic information; financial data; forward looking disclosure; corporate social disclosure and board and senior management information of the listed companies.

3.6 Reliability and Validity

This refers to how effective a study measures what it was set out to measure in the first place. The study was intended to unearth the impacts that IFRS has had on voluntary disclosure among listed companies since its inception. Construct validity was applied since the postulated study

correlated with the hypotheses whose construct it was set out to test. Any research study should be carried out very keenly so that it can produce the same results consistently even when repeated by independent researchers thus the study applied the use of a data collection guide to capture all the variables under study thus ensuring reliability.

3.7 Data Analysis and Presentation

The collected data was coded in numerical values ranging from the year 1996 to 2011 afterwards cleaned and then analysed using SPSS Versing 20 statistical software; the analysis output was presented in for of tables and charts with specific focus on the inferences that could be made from the collected data. Among the analysis conducted on the data included: multiple linear regression, co-relations an Analysis of Variance (ANOVA).

A regression model was used to determine whether there is a relationship between IFRS implementation and Voluntary Disclosure factors (Disclosed Items, Disclosure Determinants and Industrial Implication) among listed companies at the NSE. The Voluntary Disclosure factors were the β (Independent Variables) while the dependent variable (IFRS Impact) was Y

The regression equation thus was is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$$

Where Y was the dependent variable (IFRS Impact), β_0 was the regression coefficient, β_1 , β_2 and β_3 were the slopes of the regression equation, X_1 was Disclosed Items, X_2 was Disclosure Determinants and X_3 was Industrial Implication while α was the error term normally distributed about a mean of 0 and for purposes of computation, the α is assumed to be 0. The equation was be solved by the use of statistical models (Regression, correlation and ANOVA) where SPSS Version 20 statistical software will was applied. This generated quantitative reports for the study resulting in the coverage of inferential statistics

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

This chapter was a presentation of the data that was analyzed in relation to the impact of the IFRS on voluntary disclosure among listed companies. The data was presented in form of tables and charts which were further discussed following an objective by objective format. The report findings played a significant role in the conclusions and recommendations of this study.

4.2 Reliability Analysis

The reliability of the data analysis information which was in form of financial reports was evaluated using Cronbach's Alpha for internal consistency measurement; the trend and consistency of reporting over the years pre and post IFRS was of keen interest to the study. The Alpha measurement that was gotten had the same construct in all the variables under study. The established Alpha value of 0.6 which is the standard bench mark was used by this study. Cronbach's Alpha received a determination in each of the research objectives so as a conclusion can be made drawn that ensures that each scale (variable) would produce results that are consistent should the research be done again or later on. Table 4.1 below indicates that all the scales (variables) were reliable having an Alpha value that is above 0.6 which is the standard and prescribed threshold. Disclosed Items had an Alpha of 0.719, disclosure determinants had an Alpha value of 0.785 while industrial implication had an Alpha value of 0.867. A combination of all the scales yielded an average Alpha value of 0.790.

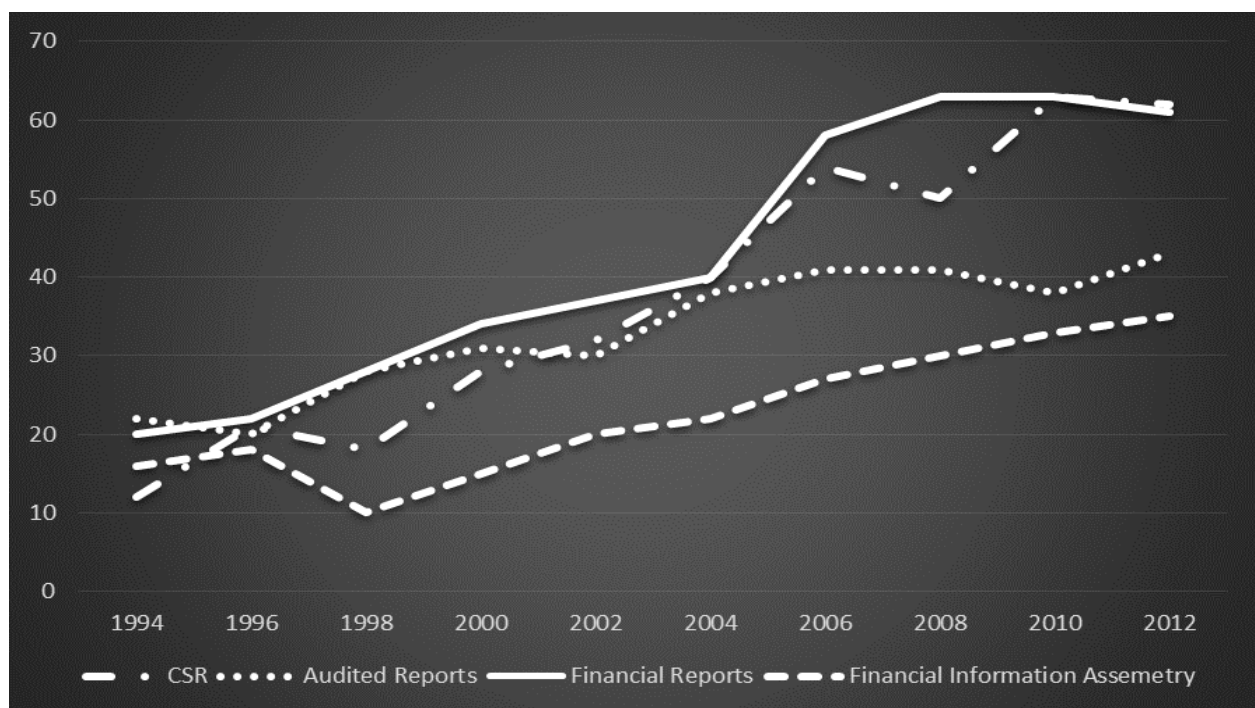
Table 4. 1: Reliability Analysis

Scale	Cronbach's Alpha	Items
Disclosed Items	0.719	4
Disclosure Determinants	0.785	3
Industrial Implication	0.867	5

4.3 Disclosed Items

The section covered the inferential statistics on the disclosed items among listed companies at the Nairobi Securities Exchange pre and post IFRS adoption. The data was analyzed through statistical models which included the Analysis of Variance (ANOVA) to test on the regression model significance as well as a model of Goodness fit. Among the disclosed items that were in the public domain about the listed companies included: corporate social responsibility (CSR), Annual Financial Reports, Audited Reports and Financial Information Asymmetry that were suggested to be to international standards.

Figure 4. 1: Disclosed Items Trend



The Figure 4.1 above is a presentation of the trend from the year 1996 to 2011 on the kind of items that companies have disclosed pre and post IFRS adoption. The breaking point is in the year 1999 when IFRS was introduced among listed companies in Kenya. As it can be noted from the trend, CRS was on the increase to together with the releasing of financial reports to the public domain. The releasing of audited reports was also on an upward trend together with also the asymmetry of information to international standards. Generally in can be concluded that since

the introduction of IFRS, there has been an increase in the disclosure of information by companies listed in the Nairobi Securities Exchange.

Table 4. 2: ANOVA Analysis

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
CSR	Between Groups	771058.167	2	385529.083	10.349	.000
	Within Groups	1676311.750	45	37251.372		
	Total	2447369.917	47			
Financial Reports	Between Groups	4299.500	2	2149.750	.641	.031
	Within Groups	150843.750	45	3352.083		
	Total	155143.250	47			
Audited Reports	Between Groups	1.322	2	.661	3.914	.027
	Within Groups	7.598	45	.169		
	Total	8.919	47			
Information Asymmetry	Between Groups	1.512	2	.756	1.672	.199
	Within Groups	20.348	45	.452		
	Total	21.859	47			

The Table 4.2 above is a presentation of the analysis of variance (ANOVA) on voluntary disclosure. The constant factor in the analysis being voluntarily disclosed items, CSR had a P-Value of 0.00 which is an indication of high level of significance, and financial reports had a P-value of 0.031 which is also significant considering that it is below the threshold of 0.05. Audited reports was also significant having a P-value of 0.027 while information asymmetry was not statistically significant having a P-value of 0.199. From the findings, the variance between the factor (voluntarily disclosed items) and its determinants (CSR, Financial Reports and Audited Reports) indeed determine the items that listed companies disclosed to the public after the adoption of IFRS.

Table 4. 3: Disclosed Items Regression Analysis

Regression analysis to determine the effect of CSR, Financial Reports, Audited Reports and Information Asymmetry to the voluntarily disclosed items post IFRS. The regression equation was:

$$SI = \beta_0 + \beta_1 \text{ CSR} + \beta_2 \text{ Financial Reports} + \beta_3 \text{ Audited Reports} + \beta_4 \text{ Information Asymmetry} + \varepsilon$$

Whereby β_0 is the regression constant, β_1 - β_4 are regression coefficients and ϵ is the regression model error term which indicates its significance.

Table 4. 4: Model of Goodness of Fit

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.851^a	.724	.692	.23484	2.169
a. Predictors: (Constant), CSR, Financial Reports, Audited Reports and Information Asymmetry.				
b. Dependent Variable: Voluntarily Disclosed Items				

The study used the table above to establish whether voluntarily disclosed items has a linear dependence on the independent variables. The study established a correlation value of 0.851. This depicts a very good linear dependence between dependent and independent variables. An R-square value of 0.724 was established and adjusted to 0.692. The coefficient of determination depicts that CSR, Financial Reports, Audited Reports, Local Experts and Information Asymmetry brings about 72.4% voluntarily disclosed items which is in line with the rising trend in disclosed items as depicted in figure 4.1; 27.6% of variations are brought about by factors not captured in the objectives. Durbin Watson value of 2.169 was established illustrating lack of autocorrelation in the model residuals.

Table 4. 5: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.448	.560		2.584	.013
CSR	.191	.058	-.313	3.329	.002
Financial Reports	.466	.123	-.312	3.779	.024
Audited Reports	.233	.077	-.322	-3.016	.004
Information Asymmetry	.181	.296	-.369	-3.569	.002
a. Dependent Variable: Voluntarily Disclosed Items					

The regression equation becomes:

$$\text{Voluntarily Disclosed Items} = 1.448 + 0.191X_1 + 0.466X_2 + 0.233X_3 + 0.181X_4$$

$$p < 0.003$$

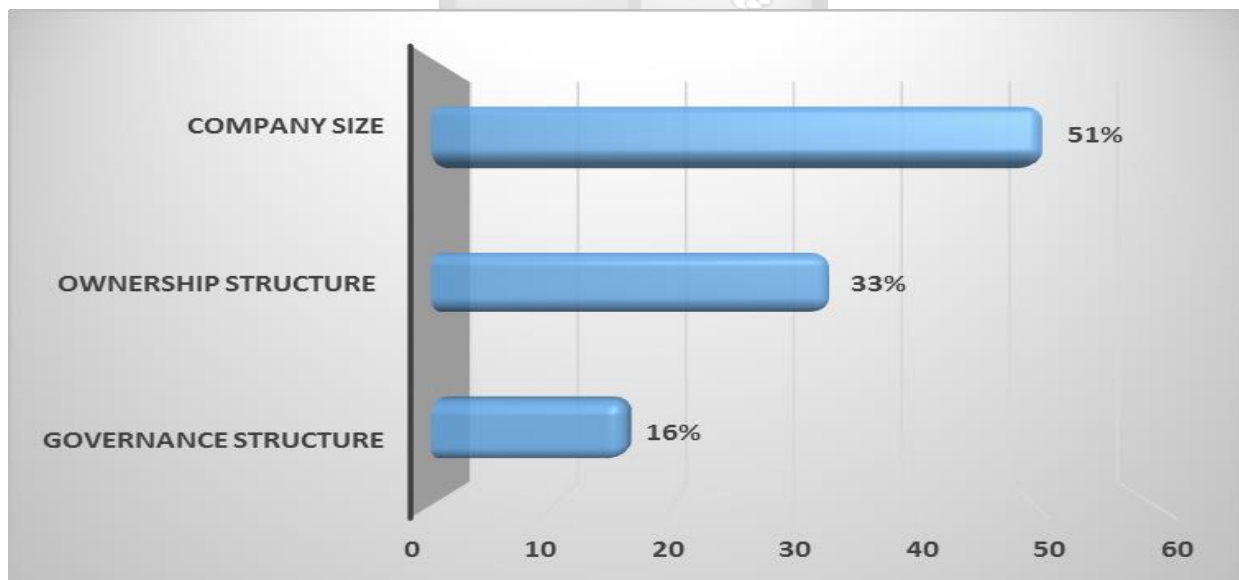
From the above regression model, when the CSR, Financial Reports, Audited Reports and Information Asymmetry have null value; voluntarily disclosed items would be 1.448.

Holding other factors constant, a unit increase in CSR would yield a 0.191 increase in the voluntarily disclosed items. A unit increase in financial reports would yield a 0.466 increase in voluntarily disclosed items; a unit increase in Audited Reports would yield a 0.233 increase in voluntarily disclosed items while also a unit increase in information asymmetry would yield a 0.333 increase voluntarily disclosed items.

4.4 Voluntary Disclosure Determinants

Among the key determinants of voluntary disclosure among listed companies are: the governance structure, ownership structure and the size of the company. This section covered both simple descriptive and inferential statistics on how these factors affect voluntary disclosure pre and post the adoption of IFRS.

Figure 4. 2: Voluntary Disclosure Determinants



The Figure 4.2 above shows the magnitude to which the various factors that determine voluntary disclosure actually affects the level of disclosure post IFRS adoption. Company size was the key determinants (51%) among listed companies as to whether information will be disclosed or not followed by the ownership structure (33%) of the listed company. The governance structure had the least mean of 16% as a determinant of the level to which information is voluntarily disclosed post IFRS adoption.

Table 4. 6: Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6.354	4	1.271	23.043	.001
Residual	2.427	85	.055		
Total	8.781	89			
a. Predictors: (Constant), company size, ownership structure and governance structure					
b. Dependent Variable: Voluntary Disclosure determinants					

Analysis of Variance was used to test the significance of the regression model as pertains to significance in the differences in means of the dependent and independent variables. The ANOVA test produced an f-value of 23.043 which was significant at $p < 0.001$. This depicts that the regression model is significant at 95% confidence level. That is, has less than 5% probability of misrepresentation thus the study can conclude that there is a relationship between the dependent and independent variables which creates the implication that a positive relationship exists between company size, governance structure and ownership structure as independent variable determinants of voluntary disclosure pre and post the adoption of IFRS.

4.5 Voluntary Disclosure Industrial Implication

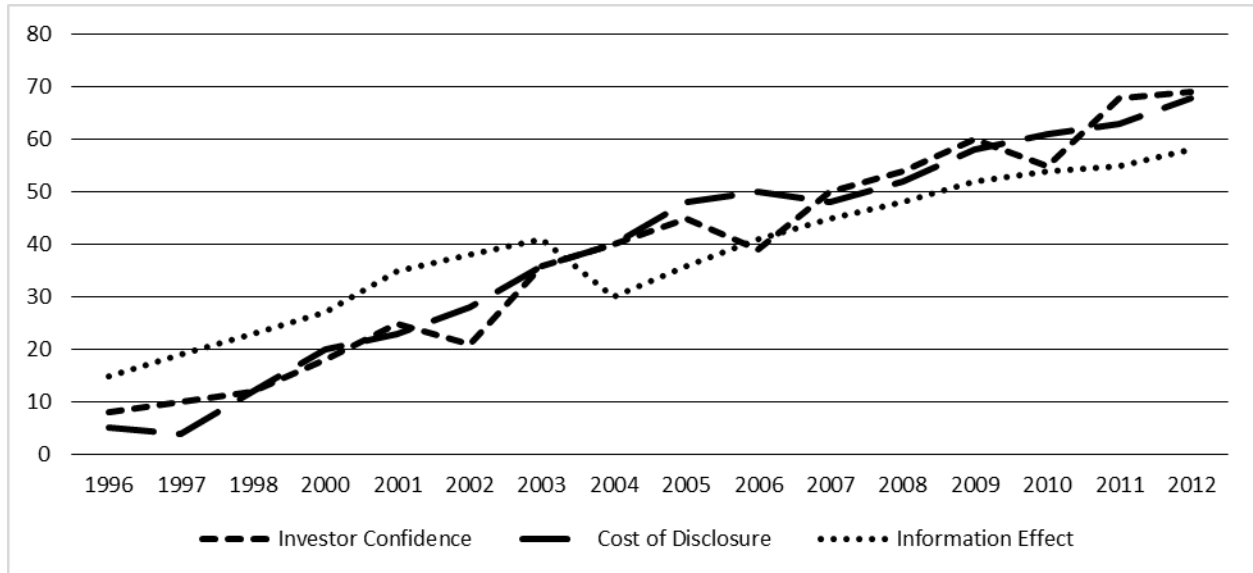


Figure 4. 3: Industrial Implication

Voluntary disclosure pre and post IFRS adoption had an effect on the market as well as the companies themselves as they traded in the stock market. The level of investor confidence has steadily increased from the years 1996-2002 which is prior to the introduction of IFRS and the trend increased steadily post IFRS adoption and was highest in 2012. The cost of disclosure on the other hand, had a gradual increasing but not steady effect pre IFRS adoption and the trend tended to have been stated with regards to the cost that listed companies incur as they effect voluntary disclosure. The effect caused by the disclosed information was also of keen interest to the study as a depicted, the information had an effect either positively or negatively on the performance of the listed companies and the trend is upward as the years progressed post the adoption of IFRS which was in the year 2002.

Table 4. 7: Industrial Implication Regression Analysis

Regression analysis to determine the effect of investor confidence, cost of disclosure and information effect to the industrial implication. The regression equation was:

$$SI = \beta_0 + \beta_1 \text{ investor confidence} + \beta_2 \text{ cost of disclosure} + \text{information effect} + \varepsilon$$

Whereby β_0 is the regression constant, β_1 - β_4 are regression coefficients and ϵ is the regression model error term which indicates its significance.

Table 4. 8: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.356	.360		2.584	.013
Investor Confidence	.188	.088	-.303	3.329	.002
Cost of Disclosure	.366	.144	.298	3.779	.024
Information Effect	.323	.089	-.311	-3.016	.004
a. Dependent Variable: Industrial Implication					

The regression equation becomes:

$$\text{Industrial Implication} = 1.356 + 0.188X_1 + 0.366X_2 + 0.323X_3$$

$p < 0.015$

From the above regression model, when investor confidence, cost of disclosure and information effect have null value; industrial implication would be 1.356.

Holding other factors constant, a unit increase in investor confidence would yield a 0.188 increase in industrial implication. A unit increase in cost of disclosure would yield a 0.366 increase in industrial implication; a unit increase in information effect would yield a 0.323 increase in industrial implication. The p-value of 0.015 is of high significance thus the implication is created that investor confidence, cost of disclosure and information effect have a positive relationship with the industrial implication that they create.

4.5 Challenges of Voluntary Disclosure Post IFRS

Among the challenges that listed companies face in their quest for voluntary disclosure under the IFRS adoption include: reaching the high standard requirement that has been created by the rules and policies that guide the IFRS. The IFRS provides a general overview of how account reporting should be done thus it is open to managerial misinterpretation on how best it should be implemented in an organization. The resulting effect of such a situation would be that listed

companies instead of being compliant would miss the mark and objective of the standard. IFRS being a new system, adoption becomes quite hard considering that accounting traditions have taken root. Organizations find it difficult to adopt to change from what they considered as they right and most appropriate way of doing things to what is being imposed on them as new and the right way of doing their accounting. Another change facing listed companies with regards to IFRS adoption in relation to voluntary disclosure is that there is inadequate skilled manpower to deal effectively with IFRS.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION & RECOMMENDATION

5.1 Introduction

This chapter presented the summary of the findings in relation to the findings in chapter four of the study as well as a conclusion drawn candidly from the findings of the study in line with the study objectives. Recommendations were drawn based on answers to the research questions and on what policy implication they had on the study in general. Areas for further study were recommended based on the gaps identified by the study together with some of the limitations the research faced in the quest for its completion.

5.2 Summary of Findings

Among the disclosed items for companies listed in the Nairobi Securities Exchange are corporate social responsibility, audited reports, financial reports and financial information asymmetry. From the findings, it was noted that the trend was upward and has been on the increase post IFRS adoption in the year 2002. This is in line with the argument by Dulacha and Hancock (2006) that the voluntary initiative has been taken by listed companies to ensure that as much information about them is in the public domain. This has resulted in promoting legitimacy of the companies as well as confidence with direct investors as well as potential ones.

The analysis of variance (ANOVA) examined in the study showed a positive correlation between all the disclosed items (CSR, financial reports, audited reports and information asymmetry). The findings indicate from a general perspective that IFRS adoption has resulted to the increase in the number the quantity to which information is disclosed by listed companies thus the p-value of 0.03 which is below 0.05 and is statistically significant to draw the conclusion that the voluntary disclosure policies among listed companies has changed post IFRS adoption.

Among the key determinants of voluntary disclosure covered by the study encompassed the size of the company, ownership structure and the governance structure. The factor that had the most impacting effect on what is disclosed was the size of the company (51%) which is in line with Haddad and Mardini (2013) who stated that as a company quests for profits, new geographical areas will be explored and venture into creating the implication of growth and a surging pressure

to disclose information voluntarily. The ownership structure also plays a significant role (33%) since as per the exposition by Luo (2003), companies that have many shareholders are prone to more disclosure as compared those with less. He also argues that listed companies with low managerial ownership also means high voluntary disclosure. Family owned businesses also tend to have less voluntary disclosure as compared to those that are not family owned. Family owned business with less executive members on the other hand, tend to encourage voluntary disclosure. The governance structure (16%) adopted by a listed company also tend to influence the information that is disclosed by a company; secretive companies tend to attract less investment and their legitimacy is brought into question. The system or corporate administration adopted by a listed company will either attract investors or drive them away which is in line with the study by Udin (2010). The analysis of variance was at 0.01 significance level indicating that after the adoption of IFRS, voluntary disclosure has changed considerably.

The industrial implication created after the adoption of the IFRS was also noted by the study to be on an upward trend. Investor confidence was on the increase, the effect caused by the information was also on the increase as well as the cost effect that came with voluntary disclosure among listed companies. The extent, purpose and mode of voluntary disclosure will affect a listed company directly. The spiral effect that is caused by the disclosure of information tends to either move a company forward or backwards which Cumming (2010) affirms. The P-value of 0.015 is significant in that it indicates that voluntary disclosure causes an effect to the industry in which a company is operating in.

5.3 Conclusion

Considering the main reason as to why IFRS was introduced, transparency and accountability has increased among listed companies which is vividly seen from the study on the items that are voluntarily disclosed to the general public. Audited reports as well as financial reports that follow a general rule provide easy interpretation globally and also reduces the chances of financial malpractices. On the other hand corporate social responsibility has created an atmosphere of accountability on listed organizations to the society as well as its stake holders. The information asymmetry that has also been on the increase since IFRS was adopted creates

the implication that world accounting standards are becoming harmonies and that globalization is in the right course.

Organizations that are large and have a global foot print tend to disclose information more often than those that are small and have a small regional coverage. The strategic step taken towards disclosing information propels the listed company into viability and high profit margins. Small companies tend to shy from disclosing information for fear of competitors using it for malicious reasons. With regards to ownership listed companies with less managerial ownership have high voluntary disclosure and also multinational listed companies as well as firms with many shareholders tend to encourage voluntary disclosure. The governance structure that is open and can be scrutinized administratively without unearthing any secret ventures outside the preview of the public tend to encourage voluntary disclosure thus the study can conclude that voluntary disclosure pre and post IFRD adoption have changed and not remained the same.

The industrial implication that is created by the voluntary disclosure of information can be positive or negative to a company. Positive if the information is accurate and inspires investor confidence while on the contrast negative if the disclose information is inaccurate and may in the end bring malpractice allegations to a company and its legitimacy brought to question. The cost both financial and administrative are keenly considered by listed companies before information is disclosed to the public. The study can conclusively state that depending on which industry a listed company is operating in, the voluntary disclosure implication is quite evident.

5.4 Recommendations

The study would recommend that listed companies continue disclosing information especially that which is financial in nature to the public as frequently as possible since this takes away any doubt on malpractices as well as inspiring investor confidence as well as attracting new ones. Information asymmetry which is achieved through the adoption of the IFRS also plays a significant role in putting listed companies on the global map for investment.

The study recommends that listed companies in dawn of the adoption of the IFRS should have clear guidelines and policies on voluntary disclosure that encourages accountability and transparency. Also the study recommends that factors such as the size of the company,

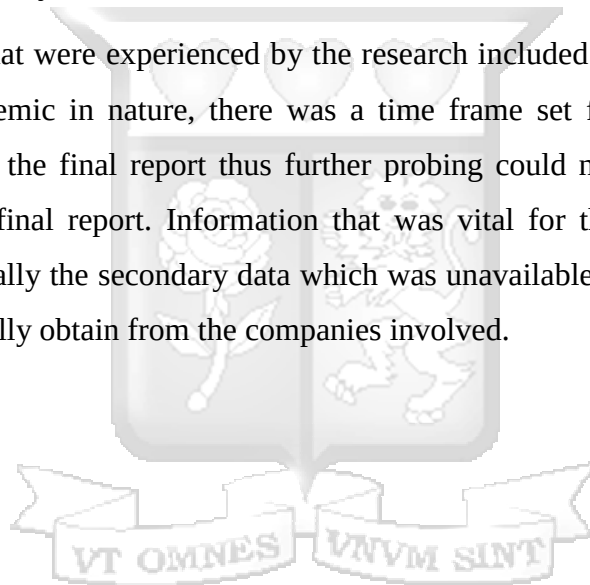
ownership structure and the governance structure adopted by listed companies should not be a hindering factor towards the proper adoption and implementation of IFRS which promotes voluntary disclosure.

5.5 Areas for Further Study

Among the areas that this research recommends to be studied further include the impact created by voluntarily disclose information when it is used by either competitors or rivals of a company for the detriment of a company and also a further study on the achievements or strides that have been made by listed companies post IFRS adoption.

5.6 Limitations of the Study

Among the limitations that were experienced by the research included: bearing in mind the fact that the study was academic in nature, there was a time frame set for the conclusion of the research and delivery of the final report thus further probing could not be done and findings included as part of the final report. Information that was vital for the research findings was scarcely available especially the secondary data which was unavailable electronically, which the researcher had to physically obtain from the companies involved.



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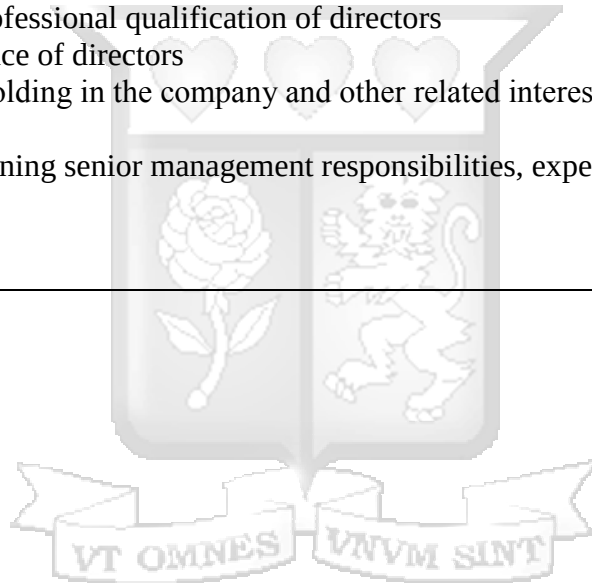
APPENDICES

Appendix I: Disclosed Items

General and strategic information
1. Information relating to the general outlook of the economy 2. Company's mission statement 3. Brief history of the company 4. Organisational structure/chart 5. Description of major goods/services produced 6. Description of marketing networks for finished goods/services 7. Company's contribution to the national economy 8. Company's current business strategy 9. Likely effect of business strategy on current performance 10. Market share analysis 11. Disclosure relating to competition in the industry 12. Discussion about major regional economic developments 13. Information about regional political stability
Financial data 14. Historical summary of financial data for the last 6 years or over 15. Review of current financial results and discussion of major factors underlying performance 16. Statement concerning wealth created e.g. value added statement 17. Supplementary inflation adjusted financial statement 18. Return on assets 19. Return on shareholders' funds 20. Liquidity ratios 21. Gearing ratios
Forward-looking information 22. Factors that may affect future performance 23. Likely effect of business strategy on future performance 24. New product/service development 25. Planned capital expenditure 26. planned research and development expenditure 27. Planned advertising and publicity expenditure 28. Earnings per share forecast 29. Sales revenue forecast 30. Profit forecast

Social and Board Disclosure

31. Number of employees for the last two or more years
32. Reasons for change in employee number
33. Productivity per employee
34. Other productivity indicators
35. Indication of employee morale e.g. turnover, strikes and absenteeism
36. Information about employee workplace safety
37. Data on workplace accidents
38. Statement of corporate social responsibility
39. Statement of environmental policy
40. Environmental projects/activities undertaken
41. Information on community involvement/participation
42. Names of directors
43. Age of directors
44. Academic and professional qualification of directors
45. Business experience of directors
46. Directors' shareholding in the company and other related interests (e.g. stock options)
47. Disclosure concerning senior management responsibilities, experience and background



Appendix II: Nairobi Securities Exchange Listed Companies

AGRICULTURAL
Eaagads Ltd
Kapchorua Tea Co. Ltd
Kakuzi
Limuru Tea Co. Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Williamson Tea Kenya Ltd
COMMERCIAL AND SERVICES
Express Ltd
Kenya Airways Ltd
Nation Media Group
Standard Group Ltd
TPS Eastern Africa (Serena) Ltd
Scangroup Ltd
Uchumi Supermarket Ltd
Hutchings Biemer Ltd
Longhorn Kenya Ltd
TELECOMMUNICATION AND TECHNOLOGY
AccessKenya Group Ltd
Safaricom Ltd
AUTOMOBILES AND ACCESSORIES
Car and General (K) Ltd
CMC Holdings Ltd
Sameer Africa Ltd
Marshalls (E.A.) Ltd
BANKING
Barclays Bank Ltd
CFC Stanbic Holdings Ltd
Diamond Trust Bank Kenya Ltd
Housing Finance Co Ltd
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
NIC Bank Ltd

Standard Chartered Bank Ltd
Equity Bank Ltd
The Co-operative Bank of Kenya Ltd
INSURANCE
Jubilee Holdings Ltd
Pan Africa Insurance Holdings Ltd
Kenya Re-Insurance Corporation Ltd
CFC Insurance Holdings
British-American Investments Company (Kenya) Ltd
<u>CIC Insurance Group Ltd</u>
INVESTMENT
City Trust Ltd
Olympia Capital Holdings ltd
Centum Investment Co Ltd
Trans-Century Ltd
MANUFACTURING AND ALLIED
B.O.C Kenya Ltd
British American Tobacco Kenya Ltd
Carbacid Investments Ltd
East African Breweries Ltd
Mumias Sugar Co. Ltd
Unga Group Ltd
Eveready East Africa Ltd
Kenya Orchards Ltd
A.Baumann CO Ltd
CONSTRUCTION AND ALLIED
Athi River Mining
Bamburi Cement Ltd Ord
Crown Berger Ltd
E.A.Cables Ltd
E.A.Portland Cement Ltd
ENERGY AND PETROLEUM
KenolKobil Ltd
Total Kenya Ltd
KenGen Ltd

