Effect of Corporate Attributes on International Financial Reporting Standards Disclosure Level. Evidence from Kenya Listed Firms

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Abstract
The increasing amount of focus on and the growing significance of the Nairobi Securities Exchange as an important avenue for trade has attracted foreign investments and increasingly encouraged local residents to invest in shares. Kenyan companies may engage in both mandatory and voluntary disclosure as a means to enhance the value of their stocks. However, little has been done to show various corporate attributes that might determine corporate International Financial Reporting Standards disclosure level. Therefore, the purpose of the study was to examine the effects of corporate attributes on International Financial Reporting Standards disclosure level by Kenyan firms listed on Nairobi Securities Exchange (NSE). The study specifically analyzed the effect of profitability, leverage, liquidity and company size on corporate International Financial Reporting Standards (IFRS) disclosure level. The study also examined whether profitability, leverage, liquidity and company size moderated by industry competitiveness effects on the level of International Financial Reporting Standards disclosure requirements. The study adopted explanatory research design in order to asses cause –effect relationship. A sample of 30 companies listed on the NSE was examined for a period of 5 years from 2007 to 2011. Secondary data was used in obtaining information from companies' annual financial reports in the process of data collection. Descriptive statistics used in the study were means, standard deviations, skewness and kurtosis. Inferential statistics used was Pearson correlation, multiple regression and moderating multiple regression model. The findings showed that profitability, liquidity and company size had positive and significant effects on International Financial Reporting Standards disclosure level. However, leverage has no effect on IFRS disclosure level. Thus, the study concludes that profitability, liquidity and firm size affect IFRS disclosure level. The results provide empirical evidence to support the implementation of adequate mechanisms such as improving the profitability, liquidity and company's size to ensure increase in IFRS. The study recommends that the accounting regulatory authority, the capital market authority, NSE and the government need to come up with standardized policies. Corporate policies and legal framework should guide and compel all firms to disclose IFRS as required by International Accounting Standards Board. These authorities should further ensure equal playing ground in industry competitiveness to ensure that the level of IFRS disclosure is not affected.
Keyword: Accounting Standards, Corporate Attributes Disclosure , International Accounting Standard , Competitiveness Company Size

Introduction

The push for global accounting harmonization has led to the increasing adoption of International Financial Reporting Standards (IFRS) with nearly 100 countries currently requiring, permitting the use of, or having a policy of convergence with IFRS. However, many countries have yet to make the switch to IFRS. The vast majority of these countries are considered emerging economies. IASB frequently lauds the positive impact that a globally harmonized reporting system would have on mitigating information asymmetries between firms in emerging economies and their domestic and foreign market participants (International Accounting Standards Committee, 2000)

The evidence in Daske *et al*., (2007) suggests that voluntary IFRS adopters fall into two categories. The first category is comprised of serious adopters; those firms which adopt IFRS in both name and practice while the second category is comprised of label adopters; those firms which adopt IFRS in name but not fully in practice. In 2004, European commission adopted and endorsed the use of all international accounting standards and IFRSs to be used in Europe. The countries included were Australia, Poland, Belgium, Cyprus, Lithuania, Hungary, Malta, Netherlands, Czech Republic, Latria, Luxemburg, Denmark, Portugal, Slovenia, Slovakia, Finland, Sweden, Germany, Estonia, Greece, Spain, France, Ireland and Italy,

In Africa, Many countries are making frantic efforts of adapting IFRSs to suit their environmental peculiarities. In Nigeria for example According to the Executive Secretary of Nigeria Accounting Standards Board (NASB), it's not possible to fully adopt the IFRSs taking into cognizance local needs (Nnadi, 2009). In Egypt According to (Dahawy and Conver 2007) in detailed analysis of the disclosure of the financial statements of listed companies in Egyptian Stock Exchange. The findings revealed that not all companies comply fully with International Financial Reporting Standards; they found that disclosure level to be between 52% and 72% with an average disclosure of 62%. Kenya's decision to adopt IFRS was prompted by several market factors in the 1990s. The 1990s were characterized by several institutional collapses (for example, banking failures) after which it undertook privatization of many government-run organizations. These factors resulted in a simultaneous push for increased corporate governance, a growing interest in the capital markets, and a subsequent thrust to adopt IFRS (UN 2006). The decision to also have private companies adopt IFRS took root in regulation established in the Kenyan Companies Act. The Act requires the all companies must present accounts that show a true and fair view of the company's affairs. While the Act provides several minimum requirements for financial reporting, it does not provide guidance on the type of reporting standards that should be implemented. The Institute of Chartered Public Accountants of Kenya (the ICPAK), as the body with the legal mandate to provide guidance on accounting standards, chose to have both public and private companies adopt IAS and IFRS, as it felt that having a uniform set of standards for all companies would be more cost effective from a regulatory perspective. In the cases where a certain standard was not applicable for a privately-held firm, the company simply did not apply the standard when constructing its financial statements (Owusu-Ansah, 1998).

While the ICPAK has noticed a marked increase in the levels of compliance over time, they still observe heterogeneity in compliance levels. Given the increasing amount of focus on and the growing significance of the NSE as an important venue for attracting foreign investments and to encourage local residents to invest in shares, Kenyan companies may engage in both mandatory and voluntary disclosure as a means to enhance the value of their stocks. Moreover, there are empirical evidences suggesting that increased information disclosure reduces a firm's cost of capital by reducing information asymmetry (Botosan, 1997, 2000). As such therefore, information disclosure in itself can be a strategic tool, which enhances a company's ability to raise capital at the lowest cost possible (Healy &Palepu 1993; Lev 1992). Thus given the nature of disclosure in Kenya its necessary to study corporate characteristics namely profitability, leverage, liquidity, company size and industry competitiveness which are considered to have an effect on IFRS disclosure level.

In recent years, there has been an increasing research focus on companies' voluntary disclosure practices (Chau and Gray, 2002). However, most of the research attention is on the industrialized Western countries. In contrast, a limited number of research studies examined disclosure practices of companies in developing economies. In line with this assertion, Needles, (1997), conducting a 32 year (1965 - 1996) review of 768 international accounting research articles published in the international accounting research noted that, "most attention was given to the United States (319 articles), followed by the United Kingdom (123 articles), Canada (58 articles)…over the entire period, the developing countries percentages decreased from 18 to 15%". The motivation for this study was to examine whether the variables that researchers have found to be significant in explaining voluntary disclosure practices of companies in developed countries apply in a developing country like Kenya. This study also adds to the literature on voluntary disclosure in developing countries and extends that literature by including company characteristics as possible explanatory variables for IFRS disclosure requirements. Consistent with international trend, in recent years, in a number of African countries there are major corporate governance reforms, culminating in national codes of principles of best practices (Rossouw, 2005).

This study investigates factors that influence the disclosure of four particular types of information rather than a single aggregate disclosure index. Generally, there is a dearth of empirical research studies on disclosure practices of Kenyan companies. Within the African context, Barako *et al*., (2006), and, Okeahalam (2004) emphasis that the relationship between firms' voluntary and mandatory disclosure and company characteristics needs to be examined. This study, therefore, fill this research gap by investigating corporate annual financial reporting practices of the Kenyan listed companies. The corporate attributes examined in this research are: profitability, leverage, liquidity, company's and size

LITERATURE REVIEW

The Concept of Accounting Reporting Standards Disclosure

Corporate financial disclosure has been defined by different writers (Chow and Wong-Boren 1995; Botosan 1997; Owusu-Ansah 1998) as the release of organization information concerning the economic performance, position or prospects of the organization particularly as measured in monetary terms. It includes measurement, adjustment, qualification and application of accounting rules and any other shaping of data prior to its release and also any subsequent interpretation. Disclosure can be either mandatory or voluntary. Mandatory disclosure is the minimum standard of disclosure in corporate annual reports expected by the regulatory forces. Corporate mandatory disclosure implies the presentation of a minimum amount of information in corporate reports, sufficient to permit a reasonable evaluation of the relative risks facing an organization (Owosu-Ansah, 1998). The widespread international adaptation of the IFRSs offer advantages such as accurate, timely and comprehensive financial statement information reduces cost of information processing; enhance international comparison of financial statements and removes barriers to cross border acquisition and divestitures (Ball, 2006).

The Legal and Institutional Framework for Corporate Financial Reporting In Kenya

Corporate financial accounting and reporting by public companies in Kenya is largely governed by the Kenyan companies Act and professional bodies, which are modeled on the British system. In addition to the rules and regulation embedded in the Act, Professional accounting bodies are empowered to promulgate accounting standards, which primarily based on the IFRSs. For public listed companies, there are further listings rules and accounting provisions contained in the securities and exchange rules or ordinance and are implemented by stock exchanges and securities and exchange authorities in Kenya. These Securities and exchange acts to protect investors, and monitor the issuing of securities, directors' rights and responsibilities and financial reporting with a view to promote and broaden the capital markets. The annual reports are important avenues for communicating company's financial and non-financial information. In the recent years, there is substantial increase in trading activities at the Nairobi Securities Exchange (NSE) especially through Initial Public Offers (IPO) and private placements. For example, it is reported that by 1996, the Kenyan government had sold 114 state owned-enterprises (Africa Financing Review, 1996). By 2004 (Financial Standard, 2004), the successful privatization of 188 state corporations earned the Kenyan government 18 billion Kenya Shillings (equivalent to US$ 238 million). In addition to past incentives such as relaxation of restrictions on foreign ownership, allowing up to 40% institutional ownership and 5% individual ownership, the Kenyan government in 2005 lowered corporation tax to 20% for newly listed companies that sell 40% of equity to the Kenyan public.

Like most Commonwealth countries, the Kenyan Companies Active (Chapter 486, Laws of Kenya), is based on and is substantially the same as the UK Companies Act of 1948 (Ogle, 2000). The Kenyan Companies Act sets the general framework for financial accounting and reporting by all registered companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. Because of the limited details of the Act, financial reporting and regulation is supplemented by pronouncements of the Institute of Certified Public Accountants Kenya (ICPAK), extensively manifested in the adopted International Financial Reporting Standards. In fulfillment of its mandate as per the Accountants Act, the ICPAK is responsible for the development and implementation of accounting and auditing standards. The ICPAK has been engaged in the setting of Kenyan Accounting Standards (KASs) since the early 1980s. In order to enforce adherence to the highest standards of financial reporting, the ICPAK maintains a close working relationship with regulatory institutions such as the Central Bank of Kenya, and the Capital Markets Authority. Also, the ICPAK is represented on the Disclosure and Standards Committee of the Capital Markets Authority.

Profitability and IFRS disclosure

There is a general proposition that a company's willingness to disclose information is positively related to its profitability. This motive can be derived from agency theory which suggests that managers of profitable companies disclose extensive information in order to show and explain to shareholders that they are acting in their best interest and justify their compensation package. The owners of a profitable company wish to disclose more information to the public to promote positive impression of its performance. It can be argued that non-profitable firms may disclose less information in order to cover up losses and declining profit (Akhtaruddin, 2005) where as profitable ones will want to distinguish themselves by disclosing more information so as to enable them obtain capital on the best available terms(Meek *et al*., 1995). Corporate managers are usually reluctant to give detailed information about a non-profitable outlet or product, hence they might decide to disclose only a lump profit attributable to the whole company (Inchausti, 1997). Employing agency theory, states that due to better performance of companies, management is more likely to disclose detailed information to the public than management with poor performance in order to avoid undervaluation of company's' shares. It can also be argued that unprofitable companies will be inclined to release more information in defense of poor performance.

The results of previous studies concerning the association between profitability and mandatory disclosures using one or more of these measures are rather mixed. (Owusu-Ansah,1998), and Owusu-Ansah and Yeoh (2005) indicate a significant positive association, while Wallace *et al* (1994), Street and Gray (2002), Glaum and Street (2003) and Ali *et al* (2004) provide no evidence of an association between company profitability and level of disclosures. On the other hand Wallace and Naser (1995) reported a negative association between the two variables.

H_{01}: There is no significant effect of Company profitability on International Financial Reporting Standards disclosure level by Kenyan firms.

Leverage and IFRS disclosure

The external finance creates an opportunity for shareholders to transfer wealth to the prejudice of creditors that increases agency costs between shareholders and creditors and the riskiness of the firm. It has been argued that with high debt firms tend to disclose more information to assure creditors that shareholders and management are less likely to bypass their convenient claims (Haniffa and cooke 2002, in Ali *et al.,* 2004). Al Shammari *et al.,* (2007) pointed out that companies with higher leverage have, by definition, less equity and probably, in turn relatively fewer shareholders. Consequently they are more likely subjected to higher equity risk than companies with lower level of leverage and therefore are subjected to greater shareholders demand for information to assess both the probability that the company will meet its debt obligations and degree of risk of future cash flows arising from their investments.

According to Iatridis (2008) firms that provide extensive accounting disclosure tends to use more debt that equity to finance their operations. It appeals therefore that firms are inclined to disclose information about sensitive accounting issues such as gearing in order to reassure investors and lenders that they abide with the disclose practices as enumerated by the accounting regulation provision of accounting disclosures reduces overall level of risk and allows for fund raising in the debt market. Prior studies provide conflicting findings on the association between leverage and the level of disclosure. For Al shammari *et al*, (2007), identified leverage as a factor positively associated with level of disclosure and in contrast (Ali *et al.,* (2004) and Hassan *et al.,* (2006) provide no evidence of such an association. A possible explanation for these findings might be that debt holders are in a position to demand additional information other than that contained in the annual report and therefore are not a reliant on the disclosures made in the annual report. As these previous studies have considered different countries and utilized differing methods, there is value in considering leverage in this study.

H_{02}: There is no significant effect of company leverage on International Financial Reporting Standards disclosure level by Kenyan firms

Liquidity and IFRS disclosure

The term liquidity is defined as the ability of a firm to meet its obligations and commitment in the short term. due to the concern that regulator, investors and other users have with regard to companies going concern status, highly liquid companies may desire to make their level of liquidity known through disclosure in their annual reports and those suffering from low liquidity might be induced to amplify their disclosure to mitigate fears and notify shareholders that management know the problem (Wallace *et al.,* 1994). Mixed results has been noted by previous researchers on the relationship between company's liquidity and level of IFRS disclosure, For example Al shammari *et al*., (2007) reported a negative association, Naser *at el*., (2002) and OwunuAnsah (1998) provided no evidence of such association ,whereas Owunu-Ansah and Yeoh, (2005) found a significant relationship between these variables.

According to Ball (2006) IFRS has the potential to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets. Moreover, the prospect of a comparative advantage from higher liquidity and lower cost of capital may influence national policy setters to adopt internationally recognized accounting standards (e.g., Leuz and Verrecchia, 2000; Daske *et al*., 2008 as cited in Shimaa and Yang, 2012). Recent study, Daske *et al.,* (2013) found that on average, adoption of IFRS leads to an increase in market liquidity or a decline in the cost of capital. Further, Daske *et al.,* (2013), argued that if firms attempt to improve their financial reporting transparency policy; they should benefit more from the liquidity compared to firms that do not attempt to improve their financial reporting transparency.

H_{03}: There is no significant effect of Liquidity on International Financial Reporting Standards disclosure level by Kenyan firms.

2.3.4 Company Size and IFRS Disclosure

In almost all disclosure studies, company size has featured as an important determinant of disclosure levels (Belkaoui-Riahi, 2001), several studies have identified company size as positively associated with level of disclosure with a number of reason advanced in justifying these relationship. First, the reason that the accumulation and dissemination of information is costly, hence it is more likely that large companies have the resources and expertise to provide more information in the annual reports which causes non – disclosure compliance. Secondly, Buzby (1975) argued that larger firms usually make many products and distribute them over large geographical areas, which requires a relatively large volume of internal data in order to keep the companies informed about their operations. This means the marginal cost of accumulating and disseminating is small, therefore, the overall costs of disclosure of large firms is lower for these firms compared to smaller firms. Thirdly reason is that smaller firms may feel that their information disclosure could endanger their competitive position in relation to larger firms in their industry, Therefore smaller firms may tend to disclose less information in their annual reports than large firms.

Fourthly it has been established that the cost of capital reduces with increased disclosure (Botosan, 1997; Sengupta 1998) and since large firms utilize far more external finance from the stock market for their operating and investment activities than their smaller counterparts, it is expected that they would find it beneficial to disclose more and comply with relevant regulations. Further larger firms are prone to much scrutiny by financial analysts and government agencies than those of small firms. As a result non-disclosure may be interpreted by investors as 'bad news' which could adversely affect the firm's value. Thus they will be forced to disclose more due to greater incentive they will receive and also to enhance their reputation and public image and to lessen public criticism, government intervention and agency costs (watts and Zimmerman, 1986).

According to Owunu-Ansah (1998) theory, intuition and empirical studies, suggest that size positively influences mandatory disclose practices while (Wallace et al., 1994) admit that although there is overwhelming support for a positive relationship between firm size and level of disclose, the theoretic basis is unclear. On the positive he urged that since large company usually operate over wide geographical areas and deal with multiple products that enable them to track all financial and non –financial information for operational , tactical and strategic purposes with this type of well-structured internal reporting system, the incremental costs of supplying information to external user's will be minimal. This will make them disclose more information than their smaller counterparts. Company size as measured by total assets or by total sales was found to be significantly associated with level of disclosure (Ali *et al* 2004, Owusu-Ansah and Yeoh, 2005, Al-shammari *et al,*. 2007). While on the other hand Street and Gray (2002) and Glaum and Street (2003) found no association between company size and the level of disclosures.

$H_{04:}$ There is no significant effect of company size on International Financial Reporting Standards disclosure level by Kenyan firms.

The Agency Theory

Several researchers have built their work using this theory. For example Ali *et al*., (2004) state that larger organizations have a greater tendency to disclose more financial information in their annual reports than smaller ones. This enhances their agency costs, reputation, public image and government intervention. This is consistent with the findings of (Watts and Zimmerman, 1986 and Chow and Wong-Boren, 1987). They also argued that organizations with higher debts ratios might disclose less information in order to disguise the level of the organization's risk.

Agency theory has a direct bearing on the research topic. In this research, accounting disclosure presents an excellent opportunity to apply agency theory. This is premised on the fact that managers (agents) have better access to company's' accounting information can make credible and reliable communication to the market to optimize the value of the firm. Through financial reporting they communicate to the users of financial reports information that is useful in making choices among alternative uses of scarce resources. On the contrary, these managers may because of their selfish interests, fail to make proper disclosure or nondisclosure of important information to the users. Such practices were not in the interests of shareholders (principal). Consequently, this may result in a higher cost of capital and lower value of shareholders' investments.

Research Methodology

This study adopted an explanatory design. Quantitative data relating to the indicators of profitability, liquidity, leverage, company size and industry competitiveness of Kenyan Firms listed on the Nairobi Securities exchange were collected over the past 5 (five) years from 2007 to 2011 annual reports and correlated with IFRS disclosure by the firms.The main population was the 54 companies listed on Nairobi Securities Exchange due to the fact that companies listed on the NSE are required to comply with corporate governance rules (CMA, 2002) and disclosure requirements on financial reports (NSE Handbook, 2008). The study used census technique to carry out selection of firms to be included in the survey. This study takes the approach of focusing on mandatory items using a researcher – constructed checklist. The disclosure checklist is designed in line with the disclosure requirements of IFRSs. The disclosure items were initially based on twenty one IAS/IFRSs in the original checklist namely:

IAS 1-Presentation of Financial Statements (9 items),
IAS 2-Inventories (3 items),
IAS 10-Events after the balance sheet date (4 items),
IAS 12 -Income taxes (3 items),
IAS 14 Segment reporting (5 items),
IAS 16 - property, plant and equipment (4 items)
,18 IAS -Revenue(1 item),
IAS 20 - Government Grants and Government Assistance (4 items),
IAS 21- Foreign Exchange Rates (3 items),
IAS 23- Borrowing Costs (3 items),
IAS 24 -Related Party Disclosures (5 items),
IAS 27 - Consolidated and Separate Financial Statements (7 items),
IAS 28 -Investment in Associates (5 items),
IAS 31 - Interests In Joint Ventures (4 items)
IAS 32- financial Instruments Presentation (4 items),
IAS 36 - Impairment of Assets (4 items),
IAS 37 –Provisions, Contingent Liabilities, and Contingent Assets (5 items),

IAS 38 – Intangible Assets, (7 items)
IAS 40- Investment Property (5 items),
IFRS 2 Shared based Payments (3 items) and
IFRS 3 -Business Combinations (5 items).

The researcher adopted the index for this particular study thus unweighted disclosure method measures the International financial reporting standard disclosure (IFRS) score of a firm as additive (suggested by Cooke,2002) as follows:

$$\text{IFRS DISCLOSURE INDEX} = \frac{\sum_{j=1}^{n} dj}{n}$$

Where dj = 1 if item is disclosed
J = 0 if item is not disclosed
n = Number of items

Accordingly, the IFRS disclosure index was derived by computing the ratio of actual scores awarded to the maximum score attainable by that firm. The IFRS disclosure indices represent the dependent variable in the study (Ghazali, 2007). Document analysis guide was used to enable the researcher to collect data on the indicators of the profitability, liquidity, leverage, company size and industry competitiveness, and of the selected firms listed on the NSE. Descriptive statistics were used to test the normality of the data collected and proved that the data was normal thus suitable for analysis. Multiple regression model analysis was used to test hypothesis; The following regression model was used to analyze the data. The model testing direct effects of corporate attributes on the IFRS disclosure level is as follows:

$$y_{it} = \beta_{0it} + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \beta_4 x_{4it} + \rho_{it} \quad \text{(i)}$$

Where;

y is the measure of IFRS disclosure level

β_0 is the constant of equation

x_1 is the measure of profitability

x_2 is the measure of leverage

x_3 is the measure of liquidity

x_4 is the measure of company size

$\beta_1 \dots \beta_4$ is the coefficient regression for $X_{1\dots}$ X_4

ρ is error term

i is the i^{th} measure of IFRS disclosure at time t

t is the measure of time

Findings and Discussion

Descriptive Statistics

The findings in table 1 indicated that the internal financial reporting Standards disclosure index gives the lowest and highest scores as .30 and .97 resulting in a range to a range of .67. On average a company disclosed .71 of the items included on the index, these findings showed that the firms in Nairobi Security Exchange had 71% disclosure level. The firms in the NSE show low variation in disclosure level this is indicated by the standard deviation among the firms at .14. In additional the result revealed that lowest and highest scores of average net profit over firms' total asset on the firms was .01 and .78 respectively resulting in a range of .77 with a mean of .33. The results shows that firm performance as a low variation among the firms listed in the NSE since the standard deviation was low (.17). Leverage indicates a wide range between lowest and highest of between 0.00 and 2.07, resulting to a range of 2.07. The leverage average reported was .33, which indicate that leverage ratio of all the firms' was 0.33, implying that firms in NSE were using less debts against firms' equity. Leverage therefore has an average variation among the firms listed on the NSE with a standard deviation at .46. Liquidity varied from the lowest to the highest scores of .25 to 4.91 resulting to a range of 4.66. The results showed a mean of 1.56 which represents current ratio of 1.5 meaning firms in Nairobi Securities Exchange can cover their current liabilities, though these firms have high variation in liquidity as depicted by standard deviation at .80. The company size resulted to the lowest and highest scores of non-financial firms listed on the NSE at log of total assets of 3.01 and 7.90 giving a range of 4.89 and a mean of log of total assets at 6.49 indicating that there are great variation among non financial companies listed on the NSE as indicated by the standard deviation of 1.04. Industry competitiveness varied from the lowest to the highest scores of 0.00 to .95 resulting to a range of .95.

More findings in Table 1 showed that firm's profitability levels are significantly and positively correlated to IFRS disclosure level (r=0.578, p<0.01). leverage has significant relationship with International Financial Reporting Standards disclosure (r = 0.111, p< .01). The correlation between Liquidity and International Financial Reporting standards disclosure was significantly positive (r = .410, p = .022) and the correlation between company size and IFRS disclosure was also significantly positive (r =.522, p< 0.01)

	Min.	Max.	Mean	Standard. Deviation	IFRS	Profitability	Leverage	Liquidity	Company size
IFRS	0.3	0.97	0.71	0.14	1				
Profitability	0.01	0.78	0.19	0.17	.578**	1			
Leverage	0	2.07	0.33	0.46	0.111**	-0.061	1		
Liquidity	0.25	4.91	1.56	0.8	.410**	.365**	0.028	1	
Company size	3.01	7.9	6.49	1.04	.522**	.185*	.319**	.252**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Diagnostic test

Multicollinearity Test

The results of the Variance Inflation Factor analysis in Table 2 indicates that for all the independent variables the VIF's are below 10 hence there is no multicollinearity problem since according to the table the largest VIF is 1. 214. The average VIF is 1.183 which is close to 1 hence this confirms that multicollinearity is not a problem for the regression model (Alsaeed, 2006; Naser *et al*., 2006).

Normality Test

The findings in Table 1 on descriptive statistics of all sectors to examine the existence of a normal distribution in the regression model. The skewness and kurtosis values were found to be below the critical values for all the variables hence indication that the data was normally distributed (Hair *et al*., 2006). The skewness values were less than one and kurtosis was approaching zero meaning the data was normal thus, assumption of normality was achieved.

Autocorrelation

To test for autocorrelation Durbin Watson test was performed. The findings showed a Durban Watson value of 1.00 which is within the thumb rule value of 1.00 to 2.00 indicating that there was no serial autocorrelation within the data.

Multiple Regression Results

The findings in the Table 2 show that the R-squared is.529, which implies that the model is capable of explaining 52.9% of the variation on IFRS disclosure in annual reports of Kenyan listed firms on the NSE.. The results were that F value was reported as 40.772, in that large values of F indicate a rare test scores (unusual data) and indicates that it is unlikely the null hypothesis is true. The significance level (p-value) for the test was 0.000 which is less than 0.05, therefore we reject the null hypothesis and conclude that at least one coefficient is none zero.

Hypothesis Testing

The result of hypotheses 1 posits that company profitability has no effect on the level of IFRS disclosure by Kenyan firms. The findings in Table 2 provided evidences to reject the stated hypothesis and inferred that company profitability had significant and positive effect on disclosure level (β_1 =0.451, p<0.000). The results of this study concurs with the study carried out in Zimbabwe by Owusu-Ansah, (1998) and Owusu-Ansah and Yeoh (2005) who indicated a significant positive association between profitability and firm IFRS disclosure. Nevertheless, Wallace and Naser (1995) reported a negative association between profitability and firm IFRS disclosure.

Hypothesis 2 stipulated that company leverage has no significant effect on IFRS disclosure level among Kenyan firms. From the study findings hypothesis 2 was accepted and concluded that company leverage has no significant effect on firm IFRS disclosure level (β_2= 0.006, p<0.915). The results concur with prior researchers who found no or limited significance between Leverage and IFRS disclosure level, for example Ali *et al.,* (2004) and Hassan *et al.,* (2006) who found no evidence of association between leverage and IFRS disclosure level . A possible explanation for these findings might be that debt holders are in a position to demand additional information other than that contained in the annual report and therefore are not a reliant on the disclosures made in the annual report. As these previous studies have considered different countries and utilized differing methods. Though the minimal significance show support to the presence of positive association between leverage and the extent of IFRS disclosure and further supports the perspective of agency theory that higher leverage companies disclose more information to avoid agency costs (Omar *et al*., 2011) or assures investors' concerns about their financial conditions (Wallace et al., 1994; Iatridis, 2008; Inchausti, 1997).

Hypothesis 3 postulated that Liquidity has no significant effect on IFRS disclosure level among Kenyan firms. Study findings does not support hypothesis 3 and concluded that Liquidity has a positive and significant effect on disclosure level ($\beta_3 = 0.145$, $p < 0.022$). The findings in this study supports what previous scholars in these area of research found for example Owunu-Ansah and Yeoh, (2005) who found a significant relationship between liquidity and IFRS disclosure. According to Ball (2006) IFRS has the potential to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets. Moreover, the prospect of a comparative advantage from higher liquidity and lower cost of capital may influence national policy setters to adopt internationally recognized accounting standards (e.g., Leuz and Verrecchia, 2000; Daske *et al*. 2008 as cited in Shimaa and Yang, 2012). Recent study, (Daske et al .2013) found that on average, adoption of IFRS leads to an increase in market liquidity or a decline in the cost of capital. Further,(Daske *et al* .2013), argued that if firms attempt to improve their financial reporting transparency policy; they should benefit more from the liquidity compared to firms that do not attempt to improve their financial reporting transparency.

Hypothesis 4 hypothesized that company size has no effect on IFRS disclosure level among Kenyan firms. Results from Table 2 provide evidence to reject hypothesis four and concluded that company size had a positive and significant effect on IFRS disclosure ($\beta_4 = 0.400$, $p < 0.00$). our findings coincided with Ali *et al*., (2004), Owusu-Ansah & Yeoh, (2005) and Al-shammari *et al*., (2007) who in their studies found that Company size as measured by total assets or by total sales was significantly associated with level of disclosure by.

Regression Equation

	Unstandardized Coefficients	Standardized Coefficients			Collinearity Statistics		
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	0.182	0.059		3.09	0.002		
Profitability	0.417	0.057	0.451	7.286	0.000	0.846	1.182
Leverage	0.002	0.021	0.006	0.107	0.915	0.883	1.133
Liquidity	0.029	0.012	0.145	2.318	0.022	0.832	1.203
Company size	0.061	0.010	0.400	6.366	0.000	0.823	1.214
R Square		0.529					
Adjusted R Square		0.516					
Durbin-Watson		1.000					
F		40.772					
Sig.		.000					

a Dependent Variable: IFRS

Conclusion and Implication of the study

Since Kenya adopted the IFRSs in 2004 in an attempt to improve the quality of financial reporting in the country, relatively few attempts have been made to investigate the depth of information disclosure and factors that may influence the information disclosure by listed Kenya companies. This study, therefore, set out to examine such a relation. Consequently, a group of company characteristics was tested to determine the depth of information disclosure. This study focuses on investigating the association between corporate characteristics and IFRS disclosure level in the annual reports of Kenya Listed firms. The samples of non-financial Kenya firms on the Nairobi Securities Exchange were used. An additive and un weighted disclosure index, compiled of 93 mandatory items, was constructed to assess the depth of information disclosure of sample companies. This procedure is conventionally termed the unweighted approach and it was adopted for the study as other researchers have used it successfully for example (Akhtaruddin, 2005; Bruslerie *et al*., 2010, Wallace *et al*., 1994, Omar *et al*., 2011 Wallace, 1987; Cooke, 1991,1992; Hossain *et al*, 1994;). Moreover, the determined companies' attributes were then regressed against the constructed disclosure index to recognize factors that may influence the depth of information disclosure.

Mandatory disclosure practices of Kenya companies appear to be extensive. Specifically, the study reveals that firms, on average, report 71% of the mandatory information. Although improvements in mandatory disclosure level can still be made. This is because there is evidence that some companies do not provide sufficiently extensive mandatory information required(Minimum disclosure score is 30%). Improvements can be achieved by introducing educational policies to raise the awareness of companies about their disclosure responsibilities. Company Size is a dominant corporate characteristic in explaining mandatory disclosure practices. The results of the regression analysis reported a significantly and positively relation between Company size, Profitability and liquidity on IFRS disclosure level. On the other hand, it is found out that leverage have insignificant effect on mandatory IFRS disclosure level. The study provides several contributions to accounting research and to accounting practice and regulation. It also suggests that the Nairobi Securities Exchange and Capital Market authority, who monitors the quality of disclosure, should improve their review of the disclosure content of annual reports to ensure higher levels of compliance with mandatory disclosure requirements.

The limitation of the research is that in this study a single country Kenya was used. In order to understand the nature of overall disclosure, it is necessary to undertake a study taking 10 years' data in order to investigate whether the quality of disclosure has improved over time. The present study is limited to below 50% of the companies listed on the Nairobi Securities Exchange. Based on the study findings, this study met its main objective of exploring the effects of company profitability, company leverage, Liquidity, company size, and the moderating effect of Industry Competitiveness on level of IFRS disclosure. The study also provides some preface evidence on firm's profitability that play an important role in determining disclosure level of companies specifically, for firms with high level of profitability, their disclosure level is likely to increase.

The results of the study inferred that improving the company's profitability the IFRS disclosure for that company would definitely improve, this was the same if the company's liquidity and its size is increased. However, there was no evidence that leverage had any significant effect on IFRS disclosure. As seen in this study increasing industry competitiveness reduces profitability of company thereby reducing the level of IFRS disclosure. Industry competitiveness also affected the relationship between leverage and IFRS disclosure negatively. IFRS disclosure level was reported to reduce if industry competitiveness increases where liquidity and firm size will reduce leading to decrease in the level of IFRS disclosure.

The study findings brought some light to the companies and all the stakeholders involved in Nairobi Securities Exchange. The findings presented in this study provide a number of significant contribution to and implication for an understanding of the value relevance of IFRS disclosure levels among NSE listed companies.

The results suggested that the enforcement body involved in International Financial Reporting Standards disclosure especially in allied sectors need to be strengthened. By assessing the level of International Financial Reporting Standards compliance based on corporate attributes, this study provides empirical evidence to support the implementation of adequate mechanisms such as improving the profitability, liquidity and company's size to ensure increase in IFRS disclosure level.

This study raises concerns about the quality of auditing and role played by internal auditors in some firms. The study found out that none of the 30 firms fully complied with IFRS disclosure standards during the study period. Thus, it is recommended that these companies first should adhere to international financial reporting standards disclosure requirements. Finally what is unique in this study which none of the other researcher had shown is that industry competitiveness reduces the IFRS disclosure level of firms.

The current study found that all the firms have not fully complied with the IFRS, thus it is paramount to investigate corporate attributes affecting the IFRS disclosure level. Therefore the study recommends s further research in the following areas; Future research could investigate disclosure performance of all the listed companies. Research could also explore the variations in disclosure between listed and unlisted companies. Moreover, firm characteristics like audit firm, company age, company listing should be investigated as determinants of mandatory disclosures.

Secondly, replicate this current study on privately held companies and SME. The Companies under SMEs were not considered in the study hence is a viable area were a similar study can be carried out in order to establish whether the results would be the same or otherwise. The current study only looked at non-financial firms on the Nairobi securities Exchange between 2007 and 2011 who were actively traded and their annual reports were available in the CMA library and Online on the company's website. There are also privately owned firms and SMEs who are not listed on the NSE and which actively involved in International Financial Reporting Standards disclosure activities. These therefore, presents a rich set of companies for similar study. Fourthly, increase the sample size of the firms for the study by incorporating some or all the listed companies to determine whether the study results could change positively. The introduction of any other variable as moderating variable a part from industry competitiveness. The current study only used 30 firms and applying a regression model is very powerful and for a better outcome requires a larger population.

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