PREPARERS’ AND USERS’ PERCEPTIONS ON CURRENT REPORTING AND INTEGRATED REPORTING: EVIDENCE FROM LISTED COMPANIES IN KENYA

Geoffrey Injeni, James McFie and Musa Mangena

Abstract
Based on stakeholder and signalling theories, we utilize a web-based online questionnaire to obtain the perceptions of preparers and semi-structured interviews to obtain the perceptions of equity analysts, on the current and integrated reporting for Nairobi Securities Exchange Listed companies in Kenya. We find that both preparers and users share the same perceptions that there are gaps in reporting non-financial information, with integrated reporting having the potential to address the gaps. We also find divergent opinions between the two. First preparers suggest that there are gaps in sustainability reporting and therefore this should be improved, but users highlight gaps in both interim and annual reports. In addition to making these reports easily available, users require companies to make more disclosures in interim reports and improve on the depth of management discussion and analysis in annual reports. Secondly, preparers support the adoption of integrated reporting to improve on sustainability disclosures, but users find sustainability disclosures less useful. Other than increasing the quantity of information in annual reports, users think integrated reporting will not lead to improvements in the investment decisions and equity screening models. These findings are important for various stakeholders in emerging markets looking at improving corporate reporting with innovations such as integrated reporting. Even though stakeholders are open to improvements in corporate reporting, the discordance between preparers and users highlighted by these findings suggest that, for emerging markets, integrated reporting faces a challenge in providing information that harmonizes the needs of all stakeholders.

Keywords Financial information, Non-financial information, Sustainability reporting, corporate governance reporting and integrated reporting

1. INTRODUCTION
Corporate reporting continues to draw attention from various stakeholders because of its role in aiding decision-making (Healy and Palepu, 2001). There are many stakeholders listed by IASB (2016): managers, investors, lenders, suppliers, customers, employees, the government and the public. These stakeholders make decisions such as whether to invest in a company, whether to supply goods on credit and whether to lend to the company, among others. Corporate reporting has also been widely researched by academicians (Beattie, 2000). According to Beattie, research on corporate reporting has focused on the rationale for corporate reporting, on those to whom the company is obligated, on how the company should disseminate information, on assurance, on regulation and on corporate report disclosures made. This study is on the disclosures made in corporate reports.

Corporate reporting provides both financial and non-financial information. Financial information covers aspects of financial performance and position: revenues, expenses and profits, assets, liabilities, equity and cash flows (Bushman and Smith, 2001). Non-financial information\(^1\) began with environmental reporting in the late 1980s and early 1990s to provide facts such as pollution and the use of energy and water by the organization and on other activities that can adversely affect the environment (INTOSAI’s Working Group on Environmental Auditing, 2001). The mid-1990s saw the emergence of corporate social responsibility reporting that focus on customer and employee safety and support to society.

\(^1\) Here, nonfinancial information excludes narratives and notes that support information in the financial statements such as accounting policies, basis of compliance and disclosures required by accounting standards.
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(Fortanier et al., 2011). Environmental and Social Reporting are now referred to as sustainability reporting. In 1999, the Organization of Economic Cooperation and Development (OECD) issued the first set of principles for good corporate governance, to enable better stewardship of a company (OECD, 2015). One of the recommendations included in the OECD principles is that companies prepare a corporate governance report. Various stakeholders have made attempts to blend financial and non-financial information. Indeed, the International Integrated Reporting Council (IIRC) is encouraging companies globally to adopt integrated reporting by following the principles laid out in the International Integrated Reporting Framework (The Framework). The Framework was launched in December 2013 by the IIRC (IIRC, 2013), and defines an integrated report as follows:

“a concise communication about how an organization’s strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term.”

The Framework gives the content elements and the principles to guide companies prepare an integrated report. The content elements of an integrated report as provided in the Framework: organizational overview and external environment, a note on governance, the business model, risks and opportunities, strategy and resource allocation, performance, outlook and the basis upon which the integrated report is prepared (IIRC, 2013). Integrated reporting highlights the fact that a company’s performance is a combination of financial, sustainability and governance factors (Eccles and Serafeim, 2013). The primary objective of an integrated report is to clearly demonstrate to the providers of financial capital how an organization creates value over time. The definition of an integrated report requires that companies link their financial and non-financial reports (governance and sustainability reports). The IIRC claims that various stakeholders will benefit from integrated reporting. Table 1 highlights the benefits to preparers as per the discussion paper of 2011.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reported information aligns with investor needs</td>
<td>1. Some content elements are already subject to regulation</td>
</tr>
<tr>
<td>2. More accurate non-financial information available</td>
<td>2. Inconsistency in the fiduciary and other duties of those charged with governance across all jurisdictions</td>
</tr>
<tr>
<td>3. Higher trust levels with key stakeholders</td>
<td>3. Addressing the concerns of those charged with governance</td>
</tr>
<tr>
<td>4. Better resource allocation decisions and cost reductions</td>
<td>4. Organizations have to balance the benefits of integrated reporting while avoiding disclosing competitive information</td>
</tr>
<tr>
<td>5. Enhanced risk management</td>
<td>5. Building knowledge and experience across the reporting systems</td>
</tr>
<tr>
<td>6. Better identification of opportunities</td>
<td>6. Organizations must establish and even strengthen information systems to capture relevant data</td>
</tr>
<tr>
<td>7. Greater engagement with investors and other stakeholders</td>
<td></td>
</tr>
<tr>
<td>8. Lower reputational risk</td>
<td></td>
</tr>
<tr>
<td>9. Access to capital and reduction in cost of capital due to increased disclosures</td>
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<tr>
<td>10. Greater collaboration across the different functions</td>
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</table>


Even though Table 1 highlights the benefits of integrated reporting to preparers which seem to be strong enough, but a majority of the benefits are still being achieved with the current reporting practices. For example, IASB, when developing International Financial Reporting Standards, ensures a greater engagement with stakeholders. A major benefit that stands out is greater collaboration across different functions of the company. The challenges of integrated reporting as highlighted in Table 1 lead to
concerns about adopting integrated reporting by companies. First, as shall be discussed later, companies in sectors like insurance and banking have more than one regulator. These are the Nairobi Securities Exchange (NSE), the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK) for banks and the Insurance Regulatory Authority (IRA) for insurance companies. The regulators require several reports, which demonstrates an overlap in reporting. Secondly, providing information such as strategies and business model may lead to competitive harm due to the sensitive nature of the information. Finally, acquiring knowledge and having the relevant experience to enable adoption of integrated reporting and having a suitable information system may be costly to preparers.

Table 2 provides highlights the benefits that IIRC users will benefit if companies adopt integrated reporting.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enables the discharge of fiduciary duty</td>
<td>1. Models and tools of analysis are still being improved</td>
</tr>
<tr>
<td>2. Users can focus on the future</td>
<td>2. Current compensation structures focus on short term returns</td>
</tr>
<tr>
<td>3. Assists assessment of risks and opportunities</td>
<td></td>
</tr>
<tr>
<td>4. Supports assessment of various issues and their impact on value creation</td>
<td></td>
</tr>
<tr>
<td>5. Ability to narrow down to relevant issues in reports</td>
<td></td>
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<tr>
<td>6. Effective investment decisions, more effective capital allocation and therefore better long-term investment returns</td>
<td></td>
</tr>
</tbody>
</table>

Note: Adapted from IIRC, (2011), Discussion Paper, p. 22.

IIRC has also provided good reasons on why integrated reporting is beneficial to users. A notable benefit, however, is that users of integrated reporting can assess value creation as a result of improvements in the capitals. However, benefits provided in Table 2, such as investors being able to focus on the long-term, assess better risks and opportunities, narrow down to the most important and relevant issues, and making effective investment decisions, are most likely being achieved with current reporting. In the case of challenges, Table 2 highlights the fact that the various tools for investment decisions that analysts use now do not consider the long term but the short term, could make integrated reporting a challenge to users. The papers therefore sought the perspectives of analysts on the extent to which integrated reporting will affect the investment tools and processes process, including the relevance of information in equity screening models.

According to Krzus (2011), integrated reporting is an improvement in corporate reporting and therefore, the IIRC should continue to encourage countries and companies globally to adopt integrated reporting. With reference to the CMA’s Master plan (CMA, 2016), CMA aims to make Kenya’s capital markets, the center for excellence where local and international companies can raise capital (CMA, 2016). CMA has pointed out several challenges with Kenya’s capital markets in the master plan: financial literacy levels for investors are low, lack of consistency in using the market to raise capital, lack of adequate expertise and infrastructure and low levels of innovations, leading to few investment products. One strategic initiative to address these challenges is by revising the corporate governance guidelines. Therefore, in 2016, CMA issued revised corporate governance guidelines; one of the recommendations was for public companies in Kenya, which include NSE listed companies, to adopt integrated reporting on a voluntary basis (CMA, 2016). In the Financial Reporting Excellence (FiRe) award of 2013 and 2014, the themes were on integrated reporting. FiRe awards, an initiative of the Institute of Certified Public Accountants of Kenya (ICPAK), CMA and NSE recognize companies with highest and better-
quality disclosures in their annual reports. Currently, the FiRe award has a separate category for those companies preparing an integrated report (ICPAK, 2018).

However, efforts by the IIRC, CMA, and other stakeholders to encourage the adoption of integrated reporting assume that the preparers are willing to adopt integrated reporting and users find integrated reporting useful. The efforts by these stakeholders also assume that reporting environments are the same. Given that companies operate in different economic environments, with some economies being developed and others emerging, challenges may arise in terms of adopting new innovations in corporate reporting. Emerging markets lag developed markets as a result of unstable economies and erratic market conditions, poor economic development, developing and operating the macroeconomic framework is difficult, market institutions that are still growing, low infrastructure, challenges in achieving higher economic growth rates and high government involvement in business and regulation (Sunje and Civi, 2008). Kenya is an emerging economy (Schwab, 2014). This study aims to add to the growing literature on integrated reporting by answering two research questions. First, what are the perspectives of preparers of annual reports in Kenya’s listed companies about current and integrated reporting? What are the perspectives of users of annual reports of Kenya’s listed companies on current and integrated reporting?

2. LITERATURE REVIEW

2.1 Kenya and the Capital Market
Kenya’s population is about 48.5 million, and the GDP is $69.5 billion as at the end of 2017 (KNBS, 2018). Kenya’s economy is the largest in East Africa, the fourth largest in Sub-Saharan Africa and the ninth largest in Africa (Bhorat and Tarp, 2016). Kenya's capital market has a market capitalization of $20 billion and is the largest in East and Central Africa and fifth largest in Africa as at 2016 (CMA, 2017). It comprises of the equity market, which is more liquid, the bond markets, which is dominant in terms of value, and other products such as Real Estate Investments and Exchange Traded Funds. Nearly 20% of the investors are foreigners from outside East Africa. The number of listed companies in the main segment was 64 as at 1st January 2018 (NSE, 2018).

2.2. The Regulatory Framework for NSE Listed Companies
Kenya adopted International Financial Reporting Standards (IFRS) for all entities for financial periods commencing after 1st January 1999, not by law but by professional regulation (McFie, 2010). The Companies Act 2015 Act applies to all companies; additional regulation is contained for banks in the Banking Act and supported by the CBK’s prudential guidelines. For insurance companies, we have the Insurance Act, supported by prudential guidelines issued by the Insurance Regulatory Authority. The regulators who oversee financial reporting are the Institute of Certified Public Accountants of Kenya (ICPAK), the Institute of Certified Public Secretaries of Kenya (ICPSK), the Capital Markets Authority (CMA), the Nairobi Securities Exchange, the Central Bank of Kenya (CBK) and the Insurance Regulatory Authority (IRA). Table 3 provides a highlight of each source.

2.3 Preparers and Users’ Perspectives on Integrated Reporting
IIRC (2012) sought the perspectives of preparers in companies that at different phases of adopting and preparing the integrated report. Major highlights from the participants was that adopting integrated reporting will remove silos and increase interdepartmental cohesion (93%), the company will demonstrate clearly value creation (98%), better and consistent external communication (74%), a better information system to enable data collection (93%) and better information for users and overall positive change (97%). In addition, Stubbs and Higgins (2012), in their study, interviewed 22 managers of companies that have adopted integrated reporting and form part of the ASX50 index in Australia.

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2 In this paper, equity analysts who analyse annual reports on behalf of investors are the users
Table 3: Regulatory Framework for Nairobi Securities Exchange Listed Companies

<table>
<thead>
<tr>
<th>Source- The law</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Act (1962)</td>
<td>Regulated all companies in Kenya; it did not specifically require compliance with IFRS but had some accounting requirements relating to records and required an auditor's and a directors' report.</td>
</tr>
<tr>
<td>Companies Act (2015)</td>
<td>Regulates all companies in Kenya; it requires compliance with IFRS as recommended by ICPAK, a directors’ report, an auditor’s report, a directors’ remuneration report and a business review and a sustainability report. It commenced in September 2015.</td>
</tr>
<tr>
<td>Banking Act and Prudential Guidelines</td>
<td>Regulate all banks in Kenya, listed or not listed; they require compliance with IFRS, a corporate governance report and a risk management report.</td>
</tr>
<tr>
<td>Insurance Act and Prudential Guidelines</td>
<td>Regulate all insurance companies, listed or not listed; they require compliance with IFRS, a corporate governance report and an actuarial valuation report.</td>
</tr>
</tbody>
</table>

Source- Regulator

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICPAK</td>
<td>Regulates all accountants and auditors. Accountants must prepare financial statements that comply with IFRS and auditors must confirm this (McFie, 2010). ICPAK encourages the preparation of a sustainability report and an integrated report through the annual financial reporting excellence (FiRe) award (For details, visit <a href="https://www.icpak.com/fire-awards/">https://www.icpak.com/fire-awards/</a>)</td>
</tr>
<tr>
<td>ICPSK</td>
<td>Regulates all company secretaries in Kenya. Requires company secretaries to ensure that the company prepares a corporate governance report and recognizes the quality of the corporate governance reports through the annual Company of the Year Award (ICPSK, 2018).</td>
</tr>
<tr>
<td>CMA</td>
<td>Regulates all listed companies, and capital market players such as the Nairobi Securities Exchange (NSE), investment banks and fund managers. Requires listed companies to prepare a corporate governance report and recommends the adoption of integrated reporting (CMA, 2016).</td>
</tr>
<tr>
<td>NSE</td>
<td>Regulates only listed companies. Requires all listed companies to comply with IFRS, and that they prepare a corporate governance report and now encourages sustainability reporting and integrated reporting through FiRe award (McFie, 2010).</td>
</tr>
<tr>
<td>CBK</td>
<td>Regulates all banks in Kenya. According to the banking prudential guidelines, requires banks to comply with IFRS and prepare a corporate governance report (CBK, 2016).</td>
</tr>
<tr>
<td>IRA</td>
<td>Regulates all insurance companies in Kenya. According to the Insurance prudential guidelines, requires compliance with IFRS and enforces the preparation of corporate governance report (IRA, 2011).</td>
</tr>
</tbody>
</table>

Note: Information compiled from various laws available at [http://kenyalaw.org/](http://kenyalaw.org/) and regulators as provided by the references in the table.

The main finding was that even though managers are aware of integrated reporting, they do not understand integrated reporting well. Other challenges highlighted included; poor coordination of different functions when preparing the integrated report, multiple reporting requirements and varied communication needs.

Gasperini et al. (2013), in their study, used a questionnaire to determine the perceptions of users, i.e. financial analysts in Italy on integrated reporting. The findings in their study revealed that users have
limited knowledge of integrated reporting but standardizing non-financial information and easy access to the annual reports will be a major benefit of integrated reporting. Similarly, Steyn (2014), using a web-based survey sought the perceptions of preparers of integrated reports for listed companies in South Africa. The preparers were concerned that there is no better resource allocation and cost reductions as a result of adopting integrated reporting. Besides, changes to management information systems due to the adoption of integrated reporting will be costly. Furthermore, no additional benefits arise from revising business models and considering economic value. In the UK, Slack and Tsavaloutas (2018) interviewed 22 equity analysts on the relevance of integrated reporting and the integrated reporting framework to their investment process. A key conclusion; integrated reporting was not relevant for decision-making according to the analysts.

Considering the above studies, the perspectives obtained from preparers are disparate from those of users. The first study by IIRC (2012) reports that preparers find integrated reporting to have many benefits, but the findings in the studies of Stubbs and Higgins (2012), and Steyn (2014) show that preparers have a negative perspective about integrated reporting. In addition, the studies of Gasparrini et al. (2013) and Slack and Tsavaloutas (2018) also highlight that users do not find integrated reporting important. If users do not find integrated reporting useful, then IIRC will need to establish clearly, whether integrated reporting should be supply driven i.e. companies adopt it anyway or demand driven where users find it useful, then request that companies provide, and hence companies can adopt.

The current study augments these studies in two main ways. First, all the studies highlighted here focused on companies that have already adopted integrated reporting, whereas this study considered the perspectives of both preparers and users at a point of planning for adoption or already adopted. Secondly, the study provides the perspectives of prepares and users from the context of an emerging market, given their challenges discussed earlier ranging from economic, legal and institutional context.

2.4 Disclosure Theories
This paper is based on stakeholder and signalling theories. Stakeholder theory has been subject of extensive debate (See Kaler, 2002; Kaler, 2003 and Kaler, 2006). It was proposed by Freeman (1984), and posits that companies provide both financial and non-financial information to highlight sustainability and other corporate governance matters, to demonstrate that they are meeting the needs of a wider range of stakeholders, and not shareholders only. The use of stakeholder theory and its application in accounting research has been discussed at length, including the theoretical and empirical analysis by Parmar et al. (2010). Meek and Grey (1988), anchoring their paper on stakeholder theory, suggested that a company should include a Value-Added Statement in its annual report so the company can demonstrate value created for many stakeholders. Bhimani and Soonawalla (2005) argued that different types of reports be integrated to demonstrate corporate disclosure responsibility. Therefore, from the perspective of preparers, this study was conducted on the basis that companies disclose more in their annual reports, in order to confirm that they are accommodating the needs of several stakeholders. In addition, companies are willing to adopt integrated reporting if it will improve the relationship with various stakeholders as a result of useful disclosures.

Signaling theory was proposed by Ross (1977). Signaling theory has also been used in various aspects of academic literature. See Conelly et al. (2011) for a detailed discussion. Signaling theory posits that companies, who are signalers, prepare reports and make other disclosures as a signal to the relevant stakeholders, who are receivers of the signal, in order for the receivers to act on the signal i.e. to make decisions. In the context of corporate disclosure and the current study, it was relevant to explain how the preparers use annual reports to minimize information asymmetry between the company and users (Spence, 2002). In using signaling theory, the study expected that preparers are open to make improvements to corporate reports like integrated reporting in order to send a signal for value creation and users to make important decisions based on the same. In addition, the study expected users to
Indicate whether they are getting the right signals when companies adopt integrated reporting, i.e. if the information is relevant.

3. METHODOLOGY

The population comprised of preparers and users. For preparers, the population was drawn from all listed companies as provided by the Nairobi Securities Exchange in early 2018 (NSE, 2018). The list was 64 as at March 2018. For users, this study considered equity analysts who use various techniques and models to decide on which companies to invest, hold or sell their equities. The analysts were purposively selected from the CMA list of trading participants. The first step was to identify those firms that conduct equity analysis. The number of analysts was eventually reduced to 14 equity analysts, with the list provided in Appendix 1. Due to the small number of companies and analysts, sampling was not used. The entire population constituted the sample size.

This study used a self-administered online questionnaire to obtain the views of preparers like in the study of Steyn (2014). Using an online questionnaire is becoming popular in research because of the ability to reach a wider audience geographically, ability to use fewer resources, and results can be quickly obtained, and data analysis is accomplished efficiently. Finally, online questionnaire maintains the anonymity of the research participants (Baatard, 2012). To achieve reliability of the online questionnaire, an email that was short and concise was used to communicate with the participants (Kaczmirek 2005; Gonzalez-Bañales and Adam 2007). In addition, the questionnaire was tested and hosted as a standard web page, before application (Cude et al., 2005). To ensure only one response by a respondent, a unique email identifier was used (Couper et al., 2001). In order not to overwhelm the participants with long questions and avoid unfilled questions with non-completion, several pages were used as suggested by Vicente and Reis (2010). These pages were separated labelled to obtain the broad themes of the study, being current and integrated reporting.

The study used semi-structured interviews to obtain the perceptions of analysts. Qualitative data is usually collected through questionnaires and interviews (Dornyei, 2007, p.132). Interviews are more powerful in eliciting narrative data and probing participants further as compare to Questionnaires (Kvale, 1996). Cohen et al. (2007, p.29) add that interviewing is "a valuable method for exploring the construction and negotiation of meanings in a natural setting." The semi-structured interviews were conducted with the interview guide having separate sections that documented perceptions about current and integrated reporting. In addition, the users were also requested to provide feedback on the best way forward for corporate reporting in Kenya. In order to ensure that the interview responses are reliable, the interviews took as long as possible (minimum two hours each), detailed notes were written down, points shared with a participants and additional clarification sought in case of unclear responses. A user was also provided with the interview guide in advance in order to prepare adequately.

4. FINDINGS

4.1 Perspectives of Preparers

4.1.1 Perspectives of Preparers on Current Reporting

Out of the 64 NSE listed companies, only 20 companies, representing slightly above 30% of the population, agreed to participate in the study. The preparers who participated in this study are CFOs and corporate reporting managers with only one internal auditor who takes part in the financial reporting process of the company. The participants were represented in all sectors: agriculture (2), automobile and accessories (2), banking (5), Commercial and Services (1), Construction and Allied (1), Energy and Petroleum (1), Insurance (3), Investment (1), manufacturing and allied (3) and Telecom and Technology (1). Regarding current reporting practices, 80% of the participants responded that their companies prepare sustainability and other non-financial reports such as portfolio review and risk management. The content of these sustainability reports is likely to have low disclosures when measured with
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benchmarks such as the GRI sustainability guidelines. This is because 40% of participants were not aware of the GRI sustainability reporting guidelines. Additional reports, however, like the portfolio review and the risk management review are significant contributors to an integrated report. Other reports highlighted are those on health and safety which provide information that relates to sustainability (social) matters.

Respondents showed clear support for the provision of sustainability reports with more than 60% recommending that sustainability reporting be made mandatory. Preparers explained that the reason for this support is that all activities of the organization, including those that have an impact on society and environment are essential and therefore, this should be communicated to all relevant stakeholders. However, the key challenges observed from preparers are that lack of awareness of the sustainability reporting guidelines and other templates and the cost of providing sustainability reports, impede on the ability to prepare sustainability reports. As presented in Figure 1, all respondents hold the view that regulators, legal requirements and professional bodies in that order as important in improving the quality of reporting and corporate disclosures. There is less support for voluntary bodies like GRI and IIRC and awards such as FiRe. The results are statistically significant, implying that the efforts to improve corporate reporting need to focus on the roles of regulators and professional bodies, in addition to making changes to the laws relating to corporate reporting. In addition, IIRC may need to focus its efforts to promote integrated reporting by working closely with professional bodies and regulators. If according to the respondents, promotions and awards are not very important in improving disclosures, then future research can establish the role of financial reporting excellence awards or how to improve them, so that they promote the disclosures made in corporate reports.

Finally, 50% of the participants agreed with the question regarding gaps in the current annual reports of companies. The responses being statistically significant given the one-sample Wilcoxon signed rank test at the 5% level (p-value of 0.034). Only 45% of the participants agree that there are challenges with regards to making disclosures in the current reports. However, the responses were not statistically significant at the 5% level (p-value of 0.152). Concerning gaps, preparers pointed out mainly sustainability reporting disclosures are not sufficient, while for challenges, lack of proper systems to obtain data for sustainability reporting, multiple regulations for banks and IFRS and other guidelines keep changing.
4.1.2 Perspectives of Preparers on Integrated Reporting

Majority of the participants reported their companies had already adopted integrated reporting by end of 2017 (60%), 20% of respondents stated their companies are planning to prepare integrated reports beginning 2018. For the adopters, the participants explained that their companies prepare an integrated report to enhance disclosures of non-financial information and enhance the relationship with investors.
Figure 2 provides a summary of the comments that preparers shared on their experienced with integrated reporting (Note the comments have been slightly edited to deal with grammatical errors).

Key points from respondents were that adopting integrated reporting has made the reporting process become very detailed, requires more effort and is time-consuming due to having several departments of the company participate in the preparation of the annual report. In addition, respondents highlighted the benefits of adopting integrated reporting; meeting investor needs, improved ratings and better credit decisions, improvements in brand equity, and more clarity on the business model, the strategy and aligning functions to strategy. These benefits include those highlighted by IIRC (2012). The challenges involved the detailed process of preparing an integrated report, understanding the framework, buy-in from stakeholders, availability of data and level of understanding by shareholders. These challenges, to some extent support those found by Steyn (2014). As the benefits highlighted earlier resonate with those posited by IIRC, then this confirms support for integrated reporting. The challenges, however, may need
to be overcome to enable the faster adoption such as making the framework clearer, more awareness and investor education to get their acceptance and for them to see how value is easily visible by using integrated reporting.

80% of the preparers support the adoption of integrated reporting, and almost all the respondents explained that their companies have adopted or are in the process of adopting integrated reporting. The reasons why companies plan to adopt integrated reporting vary from it being the best practice, more and detailed disclosures in annual reports, having greater transparency and an improved quality of reporting. The other 20% did not provide a reason why they are not in favour of adoption of integrated reporting. Only one mentioned about increased disclosures, which means more time required for preparation of integrated reporting. All the participants find the definition of integrated reporting as adequate with no suggestion for improvement. However, there is a subtle variation on the meaning of integrated reporting to the various preparers. Some explained integrated reporting extends the bottom line, others explained that integrated reporting is incorporating non-financial information and financial information, while one participant explained it is adding sustainability reporting to current reporting.

The preparers were asked the extent to which the capitals provided by the framework are relevant to the organization, with a highlight of the responses given in Figure 3.

![Figure 3: Relevance of the Capitals to the Organization](image)

As shown in Figure 3, all participants seem to agree with the classification of capitals as provided by the framework and that all the capitals are relevant to their organization, with the responses being significant (p value of 0.000 at 5%). Participants expressed some doubts about the relevance of natural capital. For example, one participant explained that natural capital is difficult to envision in a financial institution. This has the potential challenge that integrated reporting may not improve the disclosures of environmental matters for financial institutions.

In addition, participants were requested to highlight any challenges in disclosing information about these capitals. 80% of the participants reported that there would be no challenge in providing information about capitals, while 20% expressed concerns in relation to sensitivity of the information on some capital, the lack of the data on intellectual, social and natural capitals which also affects their valuation for reporting purpose. Therefore, even though preparers agree with the concept of capitals, issues of metrics, valuation, and provision of competitive information may affect the quality of the
disclosures of these capitals. Regarding integrated reporting principles, participants were asked if the principles are achievable with Figure 4 providing the summary.

The principles are achievable, and the responses are significant at 5%. Nevertheless, a few participants seem to have doubts about connectivity of information, as well as materiality and also conciseness. Regarding content elements discussed in section 1.1 of introduction, all the participants stated that they are acceptable and sufficient with the responses being significant. A few participants expressed concerns with disclosing the business model (15%), strategy and resources (20%) and outlook (15%). These contents elements provide information that is competitively harmful, according to the participants. The integrated reporting framework may need to provide further guidelines to the extent to which companies may cover aspects of their business models, strategy, resource, and outlook, otherwise. If this is not done, it may lead to lower transparency or poor-quality disclosures of these factors in the integrated reports.

Figure 4: Extent to which the Integrated Reporting Principles are Achievable

Table 4 highlights the responses and the ranking of the factors that will most likely influence the adoption of integrated reporting. From Table 4, making all stakeholders happy and addressing the needs of investors will highly influence the adoption of integrated reporting. Contrasting results however show that reducing cost of capital is not very important. The responses and the rankings, are however, not statistically significant, so none of the factors is more important than another. Based only on the ranking, adoption of integrated reporting by preparers is justifiable if it addresses the needs of investors and improves trust with stakeholders.

Table 4: Key Factors that Influence the Adoption of Integrated Reporting

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Influential</th>
<th>Somehow Influential</th>
<th>Slightly Influential</th>
<th>Not Influential</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets investor needs</td>
<td>80.00%</td>
<td>10.00%</td>
<td>10.00%</td>
<td>0.00%</td>
<td>74</td>
<td>2</td>
</tr>
</tbody>
</table>
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AJCGR – http://corporatereportingjournals.com/about-us/

More non-financial information 45.00% 45.00% 5.00% 5.00% 66 4
Improve trust with stakeholders 85.00% 10.00% 5.00% 0.00% 76 1
Better resource allocation 35.00% 40.00% 20.00% 5.00% 61 7
Cost reduction 30.00% 30.00% 30.00% 10.00% 56 10
Enhanced risk management 50.00% 45.00% 0.00% 5.00% 68 3
Opportunity identification 35.00% 40.00% 20.00% 5.00% 61 8
Reduced reputational risk 50.00% 30.00% 15.00% 5.00% 65 5
Lower cost of capital 20.00% 30.00% 35.00% 15.00% 51 11
Easier access to capital 35.00% 25.00% 30.00% 10.00% 57 9
Collaboration across different functions 35.00% 45.00% 15.00% 5.00% 62 6

Source: Authors’ Computation (2018)

Table 5 provides responses to the question on the possible barriers to the adoption of integrated reporting and the ranking of the barrier. From the table, providers identified the providing information to competitors and lack of clarity on the person responsible for integrated reporting as the top two barriers. Lack of knowledge, lack of audit assurance and cost of preparation are important barriers.

Table 5 Key Barriers to Integrated Reporting

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Extrem e Barrier</th>
<th>Moderat e Barrier</th>
<th>Somewh at Barrier</th>
<th>Not a Barrier</th>
<th>Scores</th>
<th>Ran k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different regulations (legal &amp; professional)</td>
<td>10.00% 50.00% 30.00%</td>
<td>5.00% 10.00% 60</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision of information to competitors</td>
<td>40.00% 45.00% 5.00%</td>
<td>10.00% 50</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of knowledge</td>
<td>20.00% 25.00% 20.00%</td>
<td>40.00% 15.00% 56</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of adequate information systems</td>
<td>25.00% 25.00% 30.00%</td>
<td>30.00% 63</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clarity of the person to prepare the IR</td>
<td>30.00% 25.00% 15.00%</td>
<td>35.00% 56</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of audit and assurance</td>
<td>15.00% 15.00% 35.00%</td>
<td>15.00% 30.00</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time required</td>
<td>25.00% 30.00% 15.00%</td>
<td>30.00% 62</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overlaps with other reports</td>
<td>10.00% 35.00% 25.00%</td>
<td>25.00% 47</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Cost of preparation</td>
<td>15.00% 30.00% 30.00%</td>
<td>30.00% 57</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ Computation (2018)

However, the responses and ranking of the barriers are not statistically significant; hence it is not possible to consider any barrier as the most critical. Using the ranking only, provision of information that is competitively harmful is the most important barrier to adoption of integrated reporting.

More than 90% of the preparers strongly agree that integrated reporting will improve the quality of reporting, with various reasons highlighted by figure 5. As shown in figure 5, preparers are in support
of integrated reporting because providing more non-financial information leads to greater transparency, makes companies more accountable, leads to companies thinking holistically and enables companies and other stakeholders to learn the business better (knowing the strategy, business model and performance). However, one respondent was sceptical, and explained that integrated reporting may lead to improved disclosures but not necessarily the overall financial performance of the business. Besides, integrated reporting could be used for public relation by companies. These negative sentiments even though valid reflect the view of one participant.

Figure 5: Reasons why Integrated Reporting will Improve the Quality of Disclosures

Despite the majority support by participants, where 90% of preparers think that integrated reporting should be adopted, only 55% of preparers recommend mandatory adoption, while 45% opt for voluntary adoption. The lack of consensus on whether integrated reporting should be mandatory is because, on the one hand, those who support the adoption are already familiar with integrated reporting and hence would like their peers listed on the NSE to follow suit. On the other hand, integrated reporting is a new way of reporting, and hence companies may need time understand what it is and the reporting process.

Finally, the preparers shared their overall perspective about corporate reporting. The main comments were that current reporting requires improvement especially sustainability reports. Participants expect regulators to provide templates to guide companies report on sustainability matters. Integrated reporting will improve current reporting, but preparers require time to learn to makes it easier for companies to
adopt and derive the benefits of integrated reporting. However, preparers feel that corporate reporting will continue to evolve because of changing investor needs and innovations in industries and of businesses. This is a notable observation considering how corporate reporting has evolved over time, from focusing on financial information to non-financial information starting from environmental reports, social responsibility reports, and the corporate governance and blending all these in an integrated report. Probably the evolution might require focus on only relevant information that is useful.

4.2 Perspectives of Users (Analysts)

4.2.1 Perspectives of Users on Current Reporting

10 out of the expected 14 analysts participated in the interviews. Two participants declined to participate in the study and the other two did not provide a response to the request to be interviewed. The equity analysts who participated in the study have several years of experience ranging from 3 to 20 years with investment analysis and selection of companies to invest in. This experience in carrying out equity analysis was necessary for providing valuable feedback for the study. The analysts were requested to highlight the information relevant for decision making and whether all the information should be made available in the annual reports. Analysts complement corporate reports with other sources such as meetings with management, and other data developed within the firm as a result of past research (financial metrics, data about the industry, and the economy) when making investment decisions.

Information relevant for analysts to make investment decisions in annual reports, is mainly the financial information (from financial statements), non-financial information (Management discussion and analysis-MDA) and corporate governance reports, with only two analysts using sustainability reports. However, analysts use data about companies that they have been developed over time, called proprietary data (Mainly financial data and metrics). In addition, analysts carry out meetings with management to discuss with management certain aspects of the company not covered well by companies in their annual reports to get more insight. For example, analysts expect company management to shed more light on poor performance and the rationale for certain strategies adopted by a company.

Overall, in terms of non-financial information, all analysts prefer MDA, followed by corporate governance and only two add sustainability reporting. All analysts are of the view that financial information provided in the annual reports is sufficient together with the disclosures. Two analysts also noted that the reports prepared by banks are more detailed than for other entities. However, all analysts pointed that the interim reports are not detailed enough, because interim reports contain condensed information and items of financial statements are grouped without a break down (for example, expenses and major asset categories). Besides, all the analysts suggest that MDA also requires some improvements, because current discussions lack sufficient depth and analysis. For integrated reporting, it appears that even though there is an emphasis on improving non-financial information including sustainability matters, 8 analysts do not find sustainability matters very useful for investment decisions. Finally, an issue of concern for analysts is the level of variability in disclosures made by companies. With current reporting, lack of enforcement of matters regarding sustainability has resulted in low levels of disclosures and variation in the information provided by companies. Despite requirements and enforcement by the CMA, the quality of corporate governance disclosure varies across the listed companies.

The analysts also discussed the equity screening models they use in making investment decisions. The equity screening models put more weight and emphasize financial metrics like profits and financial ratios. Unfortunately, the use of non-financial information by analysts appears to be more judgmental than systematic. For the two analysts who find sustainability matters relevant, they explained that they use professional judgment to identify companies that are sustainable, but they do not score nor provide ranking based on sustainability matters. The findings also mean that sustainability matters are not relevant for decision making by majority of analysts in Kenya. Should companies therefore not pay attention to sustainability reporting? Probably companies in Kenya may focus on preparing sustainability reports for the purpose of best practice in reporting. In addition, analysts will most likely
change their models with time, to consider sustainability reporting, given that many stakeholders are becoming more aware of sustainability matters.

4.2.2 Perspectives of Users on Integrated Reporting

All the analysts confirmed that they are aware of integrated reporting, but like in the case of preparers, they displayed some minor differences in their understanding of the meaning of integrated reporting. 8 analysts explained that integrated reporting is adding non-financial information to financial information, while 2 analysts explained that it is including additional non-financial information like strategy to the current corporate reports. Besides, 8 analysts felt that integrated reporting will lead to an increase the quantity of information, with 2 analysts feeling that the quality may also improve. If an integrated report increases the quantity of information, it could make the work of analysts easier, but for analysts the question is on whether to justify integrated reporting on quantity or quality.

All the analysts also explained that integrated reporting will probably not have a substantial impact on the investment process, nor on the equity screening model. These findings are similar to those of Slack and Tsalavoutas (2018). In addition, sustainability reports are not useful in the investment process. The adoption of integrated reporting may have a little influence on the use of sustainability information in the investment process, unless equity analysts proceed on to incorporate sustainability matters in their equity screening models. It may take time for analysts to make changes to the equity screening models, especially if they find information on sustainability less useful.

All the equity analysts recommend the adoption of integrated reporting for listed companies. This is because the adoption of integrated reporting will lead to an increase in disclosures such as corporate governance. However, the analysts prefer certain aspects of integrated reporting to be mandatory, with the overall report being voluntary. For example, all the analysts, as expected, argue for financial information and management discussion and analysis to be mandatory, while 70% argue for corporate governance reporting to be mandatory and only 20% are in support for mandatory reporting of sustainability matters. This implies, users will find integrated reporting to be relevant but only to the extent that management discussion and analysis and corporate governance matters are well disclosed, but not in relation to sustainability reporting.

Analysts also commented on issues of costs, benefits, and consistency in disclosures made in annual reports for integrated reporting, with varying opinions. All the analysts feel that integrated reporting may lead to disclosure of information that is competitively harmful for example a company’s strategies. Nevertheless, they find this information useful for decision making. All the analysts explained that the adoption of integrated reporting will lead to an increase in the costs of reporting, such as hiring experts to assist in report preparation and printing costs. This is because the number of pages of annual reports will increase, and the law requires shareholders to get printed copies for annual general meetings, in addition to the soft copies on the company’s websites. Despite the increase in costs, the analysts feel that the benefits of disclosing more information exceeds the costs in the long term. Besides from analytical perspective, information is readily available for investment decisions. Majority of analysts feel that companies will achieve consistency of reporting non-financial information if they follow the integrated reporting framework. This is in line with the findings of Gasperini et al. (2013), where the analysts welcome standardization of non-financial information. Finally, Table 6 provides important highlights regarding the views of analysts about corporate reporting, from the current practices, integrated reporting and way forward.

Overall, just like preparers, users feel that there are gaps and challenges in current reporting, but the gaps can be addressed, and challenges be overcome. First, non-financial information concerning corporate governance and MDA needs improvement. Analysts require companies to improve the depth of discussions especially, in management discussions and analysis.
### Table 6: Overall Comments about Corporate Reporting

<table>
<thead>
<tr>
<th>Level</th>
<th>Key Comments</th>
</tr>
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</table>
| Current Reporting      | - There has been significant improvement in the provision of financial information in the recent past.  
                          - Non-financial information like corporate governance still requires more improvements.  
                          - Regulators and companies must improve on the quality and frequency of interim reports and must reduce the time for annual reports to be made available.  
                          - Management needs to improve on the quality of discussions in the management, discussion, and analysis.  
                          - Sustainability reporting, though informative, will require time before it is useful in the investment decision making process.  
                          - Companies should avoid providing non-financial information for public relations, but rather, objectively provide information. |
| Integrated Reporting   | - Integrated reporting will improve on the quantity of information available.  
                          - Integrated reporting will lead to more transparency by companies, and hence investment decisions will be made easier.  
                          - Two analysts pointed out that some listed companies are already providing information required by the integrated report, but they are not labeling the report as integrated.  
                          - Analysts will continue to obtain relevant information from companies through management meetings and other sources. |
| Way forward            | - Companies should be encouraged rather than forced to disclose information. Quality of information by companies may be compromised if companies are forced or mandated to make the disclosures.  
                          - Companies need to leverage technology to provide more information, especially on their websites.  
                          - Integrated reporting can be assessed over time by companies and analysts in order to achieve the promised benefits.  
                          - Corporate reporting will continue to change and improve, with integrated reporting being a stage and not the optimal. Evolution of corporate reporting will be driven by technology and changing investor priorities and needs and the ability of organizations to have systems in place to report more quickly  
                          - The focus should now be on critical content of annual reports rather than forcing companies reporting more and more, to avoid information overload. |

**Source: Authors’ Compilation (2018)**

Integrated reporting may assist to provide non-financial information, but sustainability reports may not be highly relevant for investment decisions at this point. Even though integrated reporting is a step forward to improve the quality of reporting, analysts feel that they will still need to meet senior management for other information and insights about the company performance and strategies. Secondly, the information in interim reports is not sufficient, because companies do not provide details about key aspects of the company for informed decision making.

Finally, like preparers, analysts think that corporate reporting will continue to change, being driven changing investor needs and rapid technological changes. Integrated reporting is likely a phase in corporate reporting. The concern should not be on the quantity of information but useful and relevant.
information. The relevant information for analysts, balancing the needs of all stakeholders, considering the regulation and the relevance of information can be subject to future research.

5. CONCLUSION

Anchored on stakeholder and signalling theories, this paper augments the growing literature on integrated reporting. Given the context of Kenya as an emerging market, the purpose of this paper was, to establish the preparers’ and users’ perspectives on current and integrated reporting for listed companies in Kenya. The IIRC is encouraging the global adoption of integrated reporting, citing the benefits to preparers, users and other stakeholders. In order to enhance transparency in capital markets in Kenya, in 2016, the CMA recommended the adoption of integrated reporting on a voluntary basis for listed companies in Kenya.

The findings suggest that preparers and users share the same perspectives on current and integrated reporting. With regards to current reporting, both preparers and users feel that there are gaps and challenges and that integrated reporting, will likely improve current reporting. The main gap is in the disclosure of non-financial information, such as sustainability matters. This is important, as consensus provides an argument for the adoption of integrated reporting from the preparers and users standpoint. For an emerging economy like that of Kenya, feedback from preparers also shows that the regulators and laws are essential in enhancing the quality of corporate reporting and disclosures. Therefore, this study has various implications for regulators. If stakeholders wish to improve on disclosures of sustainability matters in annual reports, then this should be provided within the law and enforced by regulators. Besides, bodies like GRI may not be successful in encouraging the adoption of sustainability reporting, while IIRC will also have a challenge convincing companies to adopt integrated reporting, unless this is enforced by regulators, through the laws.

Findings also suggest key differences in the opinions between preparers and users for both current and integrated reporting. First, even though there are gaps in reporting of non-financial information in the current reports, preparers think that the gap is in sustainability reporting. However, users feel that the gaps are in the quality of management discussion and analysis and interim reports, for which they complement by seeking additional insights into a company’s performance by meeting management. Users also find sustainability reporting to be less relevant in their investment process, with the equity screening models used by analysts focusing more on financial metrics and judgment in using non-financial information. Maybe this could be due to a small pool of companies (64) to select. Secondly, even though preparers feel that challenges to current reporting include lack of metrics and other guidelines for sustainability reporting in addition to multiple regulation, users feel that access to timely and relevant information is the key challenge. This difference could be a challenge in light of the recommendation for listed companies to adopt integrated reporting. It appears that integrated reporting has to address the concerns of both parties, if is to be successfully adopted. For example, the quality of management discussions in an integrated report may need to be improved, in addition to sustainability reporting.

In terms of integrated reporting, preparers find improving stakeholder relations as the main benefit of adopting integrated reporting and hence there is support for mandatory adoption from slightly more than half the preparers. Users find integrated reporting to be beneficial, to the extent of providing more disclosures. Preparers are concerned about the disclosing information such as strategy, outlook, risk and opportunities to competitors as a significant challenge of adopting integrated reporting. Users, however, find this information to be useful. Users do not think that integrated reporting is useful for their investment process. Finally, nearly half of the preparers and the all the users recommend the adoption of integrated reporting to be voluntary. This discordance between preparers and users regarding integrated reporting, may prove to be another challenge in the adoption of integrated reporting.
These findings also have implication for both stakeholder and signalling theories. First, the preparers and users, having identified gaps in the current reporting and suggested that integrated reporting can address the gaps, have provided support for the two theories. However, differences between the two regarding the nature of the gaps and information required, may imply a challenge in the two theories. First, preparers find sustainability reporting useful, while users find the depth of management discussions to be more important. The same case applies for integrated reporting, where preparers find it more useful, while users find integrated reporting to be less useful for investment decisions. Therefore, according to stakeholder theory, the differences may demonstrate that companies are not meeting the needs of users. In addition, based on the needs of users, companies are not sending the right signal, as expected by the signalling theory.

There are possible ways to address this discordance, given the feedback on the way forward by all the two stakeholders. Preparers need to work together with users and regulators to establish the nature of non-financial information that they are willing to disclose in order to reduce the risk of competitive harm. On the one hand, such information is useful for decision making for investors, but on the other hand, it is vital to reduce competitive harm to the company. All stakeholders will need to agree on the means by which current reporting and possibly integrated reporting can be harmonised in terms of disclosures, to reduce information overload and have only relevant information. In addition, the use of different means to report and leveraging on information technology may help reduce costs associated with disclosures and make information easily available. This could be subject to future studies.

REFERENCES


Preparers’ and Users’ Perceptions on Current Reporting and Integrated Reporting: Evidence from Listed Companies in Kenya


**Appendix 1: Investment Firms Licensed by CMA**

<table>
<thead>
<tr>
<th>Category</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Banks (8)</strong></td>
<td>African Alliance Kenya Investment Bank</td>
</tr>
<tr>
<td></td>
<td>Dyer &amp; Blair Investment Bank</td>
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<tr>
<td></td>
<td>Renaissance Capital (K)</td>
</tr>
<tr>
<td></td>
<td>Faida Investment Bank</td>
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<tr>
<td></td>
<td>Genghis Capital</td>
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<tr>
<td></td>
<td>KCB Capital</td>
</tr>
<tr>
<td></td>
<td>CBA Capital</td>
</tr>
<tr>
<td></td>
<td>Chase Bank</td>
</tr>
<tr>
<td><strong>Fund Managers (23)</strong></td>
<td>Sanlam Investment (EA)</td>
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<tr>
<td></td>
<td>Dry Associates</td>
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<tr>
<td></td>
<td>Abraaj Kenya Advisers</td>
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<tr>
<td></td>
<td>Co-op Trust Investment Services</td>
</tr>
<tr>
<td></td>
<td>Old Mutual Investment Group</td>
</tr>
<tr>
<td></td>
<td>FCB Capital</td>
</tr>
<tr>
<td></td>
<td>Sanlam Investment (EA)</td>
</tr>
<tr>
<td></td>
<td>ICEA Lion Asset Management</td>
</tr>
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</table>
Amana Capital
Genafrika Asset Managers
Zimele Asset Management Co.
Britam Asset Managers Kenya
CIC Asset Management
Standard Chartered Investment Services
Madison Asset Management Services
Apollo Asset Management Co. Ltd
Nabo Capital
Old Mutual Investment Services (K)
Fusion Investment Management
Cannon Asset Managers
UAP Investment
Seriani Asset Managers
Watu Capital