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Forward Looking Accounting Disclosures and Financial Performance of Sugar Processing Companies in Western Region, Kenya

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Abstract:
Background: *The main objective of the study was to investigate the forward looking accounting disclosures and financial performance of sugar companies in western Kenya. The sampled population involved 113 respondents comprising of managers and accountants from five (5) sugar companies' database. During the survey exercise, primary data was used, the data was organized and coded before being analyzed using the SPSS version 24 software. The entire analysis was based on the descriptive and inferential statistical approach. Therefore, the findings of this study indicated that the forward looking disclosure had significant positive influence on financial performance of sugar processing industries in western Kenya.*
Key Word: *.Forward looking disclosure, profitability, Earning per share*

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I. Introduction

Information is power that enables an individual to make informed decisions (Byetheway, 2015). This comes due to the confidence created by being well informed about the past, current and future expected situations, and as (Zareian, 2012) notes depending on one's mental abilities and experience. No amount of information can be termed as enough due to the uncertainty created by the future, however, current and past information can help investors to make their financial decisions more comfortably for better return on their investment (Asava, 2013). Delegation and segregation of duties in companies cause partiality in the information to be communicated to the stakeholders. As agency theory tries to explain, the problems witnessed because of principal delegating duties to be carried out by agents is a clear indication that more information is nowhere to be compared with less information (Jensen & Meckling, 1976).

Even though accounting disclosure is complicated for some investors, it ought to be disclosed for two key motives: to support the efficiency of business and production processes, as well as to conform to the social values reflected in both official regulations and informal norms (Adina & Ion, 2008). Maina (2015) observed that when the company makes information regarding the investment, investors benefit from a high chance of allocating their capital appropriately and hence decrease the average price of capital. Failure to disclose some evidence results to information asymmetry, which has been observed to be a major problem that destroys the relationship between the management and stakeholders.

There are two main ways of disclosing company information to different stakeholders: compulsory and voluntary disclosure (Li & Yang, 2016). According to Tian and Chen (2009) compulsory disclosure refers to company's compliance to a set of the pertinent rules and laws such as company and securities law, accounting rules and other regulatory bodies in the reporting and release of company information. On the other hand, voluntary revelations are exclusion information conveyed over and beyond what is suggested by law and rules with an aim of rising firm's images, boosting investor confidence and hence circumventing allegation perils (Shehata, 2014). Since voluntary disclosure is more elaborate, it helps improve completeness and ensure credibility of the compulsory disclosure for potential investors. Subsequently, it helps to drive the fluidity of the capital markets warranting for more effective capital allocation (Tian & Chen, 2009).

As outlined the main purpose of voluntary disclosure is informing the public better about the company which may be periodic, released together with annual reports, while other disclosures are not periodic (Asava, 2013). This is one of the differences of voluntary disclosure, it should be noted that the degree and kind of this disclosure vary widely by firm, geographical location, size together with age of the company and the intent of the disclosure (Maina, 2015). Past research on voluntary disclosure show different ways of classifying voluntary disclosure. For instance, Jullobol and Sartmool (2014) and FASB (2001) classifies voluntary disclosure into six kinds of information corporate data, management examination of corporate data, forward-looking information, shareholder-management information, background information and omitted information of intangible assets like research and development. This broad classification as done by Meek, Roberts and Gray (1995) had described these categories; strategic, financial together with non-financial information. Even so, these studies did not find the importance of governance information, which in recent times has proven to be a critical part in the decision taken by the company (Yanesari, Gerayli, Ma'atoofi & Abadi, 2012). This missed step forms the basis of why this study will be conducted.Al- Matarneh (2009) noted that Forward-looking disclosures reduce information asymmetry between management and shareholders

1.1 Specific Objective

i.) To examine the influence of forward-looking accounting disclosures on financial performance among the sugar processing factories western region, Kenya.

1.2. Research hypothesis

H01: There is no significant influence of forward looking accounting disclosures on financial performance among the sugar-processing companies in western region, Kenya.

II. Liturature Review

Adams (1996) carried out a research regarding the elements of voluntary disclosure as per the statistics from New Zealand life insurance firms. The accounting disclosures based on this approach and general corporate information including voluntary financial data were among the parameters of interest in the study. The nature of data voluntarily exhibited by majority of life insurance firms through their routine annual reports was found to relate positively with the following factors namely; company capacity or size, product diversification, and level of reliance on independent sales agents that form major determinants to put in to consideration. However, the research suggested that creating a clear framework for disclosing information is important to improve transparency and confidentiality within the financial institutions.

Jullobol and Sartmool (2015) carried out a survey investigating the impact of performance of various companies regarding the voluntary disclosure statistics as per annual regular reports: for instance, a case study involving an Egyptian stock exchange's technology firm, in which, Forward-looking related information and non-disclosure parameters were being evaluated using Tobin's Models. Based on the random effects on publicly traded technology companies which operated between 2009 and 2013, the financial performance of the sector was assessed based on return on asset (ROA) approach and Tobin's Q as reference parameters. For about a half a decade years, which took place between 2009 and 2013, every legal technology firms recognized by the Egyptian Stock Exchange was evaluated, this involved assessment of electronic specialization sector and entire information communication technology area. In the course of this process, about 34 firms were investigated where over 150 observations on voluntary disclosure were obtained from annual reports of individual company. In that regard, the nature of data collected in this study was of secondary nature since it occurred in the form of panel data. From that reason, collected data occurred in form of cross-section data with time series format. Unluckily, the data information collected was unbalanced panel data since there were significant deviations on the number of years that the events took place. Voluntary disclosure data was evaluated by use of routine checklist bearing the voluntary disclosure index (VDI) as indicated in the annual reports. The other means in which data was gathered involved the use of SETSMART model that gave clearer image of related information. In general, the overall information disclosure findings revealed that performance of firms can have significant impact on forward-looking information. Additionally, other critic analyses which grouped data in to information based approach, non-financial data among other relevant financial information suggested that voluntary disclosure of strategy information and non-financial information are possibly favoured by firms. Therefore, financial information disclosure may not be as significant as the actual performance of the affected company.

In another survey, Magenire (2011) investigated on Voluntary disclosure of firms listed in republic of Rwanda with an objective of establishing the reaction to the new corporate reporting trends in terms of behavioural disclosure. The study majored on the voluntary disclosure of financial-related, strategic and non-financial information affecting 297 companies' Yearly reports which were captured as from 1995 to 2006. According to the findings of this Rwandan case, voluntary disclosure reported by firms listed on the Rwandan stock exchange steadily went up throughout the investigation duration, indicating how companies responded to emerging changes in company disclosure trends in the Rwandan market. According to the research, government share has vital influence on companies' disclosure decisions on the stock exchange markets, whereas foreign investment impacts positively on firms' voluntary disclosure status. Nevertheless, the Rwandese stock market corporate governance management has instituted policies to guide all the listed firms in terms of information disclosure and safety of shareholders. International auditing firms are believed to be more effective and focused on improving transparency and accountability of disclosure among publicly trading companies. The Rwandese version of study largely contributed to the literature of corporate disclosure through detailed information regarding numerous implications and influence of the changing disclosure trends on global stock exchange markets. The observations suggested that Rwandan stock exchange market demonstrated a clear framework and access to important information that fosters improved decision-making, confidentiality, accountability and transparency among all stock exchange listed firms.

Naran (2013) established that the impact of company capacity in relation to the voluntary disclosure of financial performance of Kenyan commercial banks has direct relationship. The survey in Kenyan stock exchange market sampled 17 out of 44 commercial institutions and established a relevant disclosure index made up of 47 disclosure items within investigating period that ran from 2008 to 2011. Kendi (2016) explained how forward-looking disclosure, and strategic disclosure undertake delegation for measuring voluntary disclosure in relation to company capacity as influenced by the financial performance of resident commercial institutions. For that reason, Kenyan study established a positive interrelationships existing across forward-looking information disclosure, firm size and financial performance parameters.

Conceptual framework.

Forward looking disclosure
- Proforma financial statements
- Sales revenue
- Earnings per share

Financial performance
- Profitability
- Increase in asset base
- Increase in bonus issue

III. Research Design:

A descriptive research design was used for the study. This was done to describe, explain, and validate the research findings. Creative exploration yields descriptions and aids in organizing the findings to fit them with explanations, which are then validated or tested (Krathwohl, 1993)

IV. Target Population

Salkind (2010) defines the population as "the entire group of a general set of elements relevant to the research study". The 113 employees from the five (5) sugar-manufacturing firms in Western Region, Kenya were the target population .This included; the management directors, accountants, auditors, finance officers and audit clerks.They had knowledge on books of accounts. Given the small number of the five sugar-manufacturing firms in the western Kenya, which precludes sampling (Salkind, 2010), a census study was conducted to include all five sugar firms operating in western Kenya (Mugenda, Momanyi, & Naibei, 2012).

Table 1: Target Population

Company	CEO	Finance officers	Accountants	Auditors	Audit clerks	Total
1 Nzoia Company Ltd	1	9	13	6	4	33
2 West kenya Company Ltd	1	7	11	5	3	27
3 Butali Company Ltd	1	8	10	6	3	28
4 Olepito Sugar Company Ltd	1	2	5	2	1	11
5 Busibwabo Sugar Company Ltd	1	3	6	3	1	14
TOTAL	**5**	**29**	**45**	**22**	**12**	**113**

Source :(Kenya Sugar Board, 2019)

Sampling and sample size

The researcher sampled 113 respondents using census technique. Since the study target population was limited in number, the researcher considered the entire target population into a sample for the study. According to Sekaran (2010), sampling is a statistical analysis process in which a predetermined number of observations are drawn from a bigger population.

V. Data collection Instruments

According to Zikmund (2003), the instruments of collecting data are used in collecting and gathering information for the research survey. In that regard, both primary and secondary information gathered by the researcher for analysis and discussions of the findings.The main collection instrument was questionnaire. This facilitated easier collection and gathering of data from the respondents. Secondary data was obtained from website.

VI. Validity and Reliability

The primary goal of this study was to examine the research instrument's content validity. Determining the content validity of the questionnaire requires the researcher to seek for expert opinion from the company supervisors. Nevertheless, all company audience groups reached a decision based on the evaluation of the questionnaire tool where the thresholds were also set.

The pilot test should and must consist of 5% to 10% of the intended target sample, according to the rule of thumb (Cooper & Schilder, 2011; Creswell, 2003). Cronbach's alpha was applied to the pilot test sample. The Cronbach's alpha coefficient test was used by the researcher to examine the validity and reliability of the instruments used, and the coefficient alpha of these variables was reported. The reliability test was carried out and coefficient level of Cronbach's alpha was more than 0.7

Table 2 Cronbachs alpha

Variables	Cronbach's alpha	No of items
FLD	0.83	7
PERF	0.71	7

VII. Data Analysis and Presentation

The data gathered was solely based on the research objectives and hypothesis. The quantitative data collected during the exercise was thoroughly examined and analyzed using descriptive statistical techniques such as frequencies, standard deviation, and measures of central tendencies. Additionally, there were various Regression Analysis was employed. In general, all these stages were implemented purposely to establish the influence that voluntary accounting disclosure renders on the financial performance levels of the sugar processing factories operating from Western Region of the republic of Kenya. The study's regression equation was adopted below;

$\mathbf{Y= \beta_0 + \beta_1 FLAD}$

Where

Y= Financial Performance

FLD Forward Looking Accounting Disclosure

Response rate

The questionnaire technique was used as the primary data collection tool throughout the study. During the data collection stage, 97 out of the possible 113 questionnaires distributed were duly filled, completed, and returned, translating to an 85.84 % return rate.

Descriptive Statistics for the Study

The study was to investigate the impact of forward-looking accounting disclosures on financial performance among sugar-manufacturing firms in western region, Kenya. The respondents asked to rate from how strongly they agreed to how they strongly disagreed with the statements on a Linkert scale of 1 to 5, where 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree, and 5 = strongly agree. Table 4.6 summarizes the findings.

Table 3 Forward Looking Accounting Disclosures

Description	SA	A	U	D	SD	Total	Mean	St. dev.
Our company present profit warnings to all stakeholders	21.6	24.7	27.8	20.6	5.2	100.0%	3.37	1.184
We disclose about the likely impact of our business strategy on future performance	56.7	39.2	4.1	0.0	0.0	100.0%	4.53	.579
We also disclose our new product/ service development	72.2	26.8	1.0	0.0	0.0	100.0%	4.71	.478
Our company discloses its future prospects to all stakeholders	76.3	22.7	1.0	0.0	0.0	100.0%	4.75	.457
We also disclose our planned research and development expenditure	45.4	53.6	1.0	0.0	0.0	100.0%	4.44	.520
We disclose our planned advertising and publicity expenditure	52.6	45.4	2.1	0.0	0.0	100.0%	4.51	.542

We also disclose our earnings per share forecast, Sales revenue forecast and Profit forecast	74.2	20.6	3.1	2.1	0.0	100.0%	4.67	.641

The respondents were asked if the company issues profit warnings to all stakeholders. Table 3 shows that 21.6 % strongly agreed, 24.7 % agreed, 27.8 % were neither agree nor disagree, 20.6 % disagreed, and 5.2 % strongly disagreed. As a result, 21.6 % of respondents strongly agreed, while 24.7 % agreed that the company issues profit warnings to all stakeholders.

The study findings also revealed that the company disclose the likely effects of business strategy on future performance. Table 4.6 shows that 56.7 % strongly agreed, 39.2 % agreed, 4.1 % were neither agree nor disagree, 0.0 % disagreed, and 0.0 % strongly disagreed. As evidenced by the high percentage of 56.7 %, most of responders strongly agreed that the company should disclose the likely effects of business strategy on future performance.

The research findings also indicated that 72.2% strongly agreed that the company discloses new product or service development. It was further, established that 26.8% agreed while 1.0% were undecided. As shown by the high percentage 72.2%, most of respondents strongly agreed that the company discloses new product or service development.

The data findings further revealed that 76.3% strongly agreed that the company discloses its future prospects to all the stakeholders while 22.7% agreed. It was also discovered in table 4.6, that 1.0 % of respondents were neither agree nor disagree. Overall, the majority of respondents agreed that the company discloses its future prospects to all the stakeholders.

The study sought also to establish whether the company disclose planned research and development expenditure. From table 4.6, the responses of the respondents showed that 0.0 % strongly disagreed and disagreed while 1.0 % were neither agree nor disagree. 53.6 % agreed as 45.4 % strongly agreed. As a result, 99 % of respondents agreed that the company discloses planned research and development expenditure.

Additionally, the findings showed that 52.6% strongly agreed that the company disclose their planned advertising and publicity expenditure. In addition, no one strongly disagreed, no one disagreed, 2.1 % were neither agree nor disagree, and 45.4 % agreed. As a result, the majority of respondents strongly agreed that the company should disclose its planned advertising and publicity expenditure.

The seventh item under the forward-looking disclosure was to determine whether the company disclose their earnings per share, Sales revenue and Profit forecasts. The results in table 4.6 showed that 0.0 % strongly disagreed whereas 2.1 % disagreed. Additionally, the results indicated that 3.1 % were neither agree nor disagree as 20.6 % agreed, and 74.2 % strongly agreed. The majority of responders believe that the company should disclose its earnings per share forecast, sales revenue forecast, and profit forecast, according to the findings.

VIII. Financial Performance

In this study, the dependent variable of the research was the financial performance of Sugar processing firms in western Kenya. According to the questionnaire, the respondents were called upon to rate how strongly they agreed or disagreed with the statements on a Linkert scale of 1-5. The results are presented in table 4 below.

Table 4: Financial Performance

Statement	SA	A	U	D	SD	Total	Mean	St. dev.
Voluntary disclosure has resulted in increased corporate profitability.	30.9	45.4	7.2	10.3	6.2	100%	3.85	1.158
Voluntary disclosure has resulted in increased market value of the company	54.6	40.2	4.1	0.0	1.0	100%	4.48	.631
Voluntary disclosure has resulted in increased successful right issues and bonus issues	70.1	25.8	4.1	0.0	0.0	100%	4.66	.557
The company's competitive edge has improved because of voluntary disclosure.	76.3	22.7	1.0	0.0	0.0	100%	4.75	.457
The company's capital base has grown because of voluntary disclosure.	73.2	23.7	3.1	0.0	0.0	100%	4.70	.524
We disclose Historical financial data summary for the last 5 years or more	76.3	18.6	2.1	3.1	0.0	100%	4.68	.670
We published review of current financial findings and discussion of major financial performance factors.	74.2	24.7	1.0	0.0	0.0	100%	4.73	.468

The statistics seem to investigate on whether voluntary disclosure enhanced increased corporate profitability. According to the results in table 4, it was observed that 6.2% of the respondents strongly agreed and 10.3% of them disagreed. The analysed data further indicated that 7.2% of the audience remained undecided, with 45.4% moderately agreed and 30.9% expressed strong agreement on the same. For that reason, majority of the respondents demonstrated that 76.3% of the audience at least agreed that voluntary accounting disclosures fostered increased corporate profitability.

The other parameter exhibited in the study included the financial performance utilized as a tool to establish on whether voluntary disclosure contributed to the increase in the company's market value or not. The collected data in Table 4.10 indicated that 0.0 % of respondents disagreed, 1.0% strongly disagreed, with 40.2% agreed while 54.6% strongly agreed while only 4.10 % of the sample population remained undecided. In general, the overall analysis revealed that 94.6 % of the sample group unanimously agreed that indeed voluntary disclosure increased the company's market value.

The third financial performance question was to determine on whether voluntary disclosure contributed to an increase in the success of right issues and bonuses. In this regard, the results demonstrated that 0.0 % of the responders strongly disagreed with similar proportion also disagreed whereas 4.1% of them remained undecided. However, the results further indicated that 25.8% of this sample group agreed with 70.1% strongly agreed. In this regard, 95.9% of respondents agreed that voluntary disclosure had raised the volume of successful right and bonus issues.

The study also sought to establish that voluntary disclosure has played a significant role in improving the business's competitive edge in the dominant markets. In accordance with the results in Table 4.10, 0.0% strongly disagreed on the matter while 1.0% disagreed. The results further indicated that 1.0% remained undecided, while 22.7% agreed, and 76.3% strongly agreed. Consequently, 99% of respondents arrived at the consensus that voluntary disclosure improved the overall competitive advantage of the company on markets.

The respondent were asked if voluntary disclosure had resulted in an increase in the capital base of the company. The results in Table 4.10 showed that 0.0 % strongly disagreed and disagreed. The results further showed that 3.1% were undecided, 23.7% agreed, as 73.2% of the respondents strongly agreed. As a result, vast majority of respondents (96.9%) it was agreed that voluntary disclosure increased the capital base of the company.

The study also wanted to know if the company provides a historical summary of financial records for the past five years or more. As shown in table 4.10 indicated that 0.0% strongly disagreed while 3.1% disagreed. The results further illustrated that 2.1% were undecided, 18.6% agreed, and 76.3% strongly agreed. As evidenced by the huge percentage of 94.9%, the most of respondents agreed that companies should disclose a historical summary of financial records for the years or more.

The final item under financial performance was to determine whether the company discloses a review of current financial results as well as a discussion of the major factors underlying performance. The results in Table 4.10 showed that 0.0 % strongly disagreed and disagreed. The findings additionally, indicated that 1.0% were undecided, 24.7% agreed, and 74.2% strongly agreed. Concluding, 99% of the respondents, agreed that the company should disclose a review of current financial results as well as a discussion of major factors underlying performance.

Correlation

Table 5 Correlation Statistics

Forward Looking Disclosure	Pearson Correlation	1
	Sig. (2-tailed)	
Financial performance	Pearson Correlation	.863**
	Sig. (2-tailed)	.000

Source; Researcher (2021)

The statistics show the indicators of financial performance strongly correlates with Forward Looking Disclosure ($r = .863$, $p< 0.01$). This is consistent with Naran's (2013) researched on the influence of company size and voluntary disclosure on the financial performance of commercial banks in Kenya. According to the findings, there is a positive relationship between forward-looking information disclosure, financial performance and firm size.

Regression analysis

This section presents the regression analysis results, as well as the discussions on the findings. Additionally, testing of the hypotheses discussed as well. It assisted in examining the study's that Forward Looking Disclosure has no statistical strong impact on financial performance.

Table 6 Regression Results of Organizational structure and Strategy implementation

Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.863[a]	.744	.741	.412	.744	276.309	1	95	.000

a. Predictors: (Constant), Forward Looking Accounting Disclosure

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	46.966	1	46.966	276.309	.000[b]
	Residual	16.148	95	.170		
	Total	63.113	96			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Forward Looking Accounting Disclosure

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
1	(Constant)	1.778	.175		10.144	.000	1.430	2.126
	Forward Looking Accounting Disclosure	.644	.039	.863	16.623	.000	.567	.721

a. Dependent Variable: FP

The correlation coefficient (R) of 0.863 demonstrated a strong linear correlation between forward-looking accounting disclosure and financial performance among the sugar-manufacturing firms. This implied that forward-looking accounting disclosure has a substantial and strong correlation with financial performance. Forward Looking Accounting Disclosure explained 74.4% of the variance in financial performance in sugar manufacturing firms in Kenya's western region, as indicated by R-square of 0.744. The significance figure is 0.000 that is less than 0.05. Thus, the model was significant, and the null hypothesis was rejected, because Forward Looking Accounting Disclosure had a significant and positive relationship with financial performance in sugar manufacturing industries in western region, Kenya..

The regression equation used to estimate the correlation between forward-looking disclosure and financial performance in sugar manufacturing industries in Kenya's western region is as follows:

FLAD = 1.778 + 0.644 FP

The preceding findings supported by Naran (2013), who investigated the impact of firm size and voluntary disclosure on the financial performance of commercial banks in Kenya. The study sought to determine how forward-looking disclosure, forward-looking, strategic disclosure, board disclosure as a delegation for measuring voluntary disclosure, and company size influenced the financial performance of commercial banks in Kenya. According to the study, there is a strong relationship between forward-looking accounting disclosure, firm size, and financial performance.

IX. CONCLUSION

The study concluded that forward-looking accounting disclosure, play a significant role in determining the financial performance. Additionally, In accordance with the study, forward-looking accounting disclosure was critical to the financial performance of sugar processing firms located in the entire region of western Kenya

X. RECOMMENDATION

Based on the findings of the study, the researcher recommended the following; the study recommends that sugar firms should disclose forward-looking accounting disclosure to all their stakeholders. In disclosing forward-looking information to stakeholders has a positive influence of the firm wealth maximization. Forward-looking information disclosure includes information that explains the firm's current and future key projections, allowing financial statement users to evaluate the firm's future financial performance.

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