ADDIS ABABA UNIVERSITY

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FACTORS THAT AFFECT QUALITY OF FINANCIAL REPORTING IN THE COMMERCIAL BANKS OF ETHIOPIA.

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DECLARATION

I, the undersigned, declare that this thesis is my original work and all sources of material used for the thesis have been dully acknowledged.

Declared by

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SCHOOL OF GRADUATE STUDIES

This is to certify that the thesis prepared by Biniam Tassew, entitled: Factor That Affect Quality of Financial Report in Commercial Banks of Ethiopia and submitted in partial fulfilment of the requirements for the Degree of Master of Science in Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstract

The study aims to examine factor that affect quality of financial report in commercial banks of Ethiopia. The dependant variable Financial Reporting quality regressed against independent variables level of financial leverage, profitability, firm size, board of size, IFRS adoption and ownership structure. The study used explanatory research design the quantitative data were collected through the annual financial report from seventeen Commercial Banks over the period from 2014 to 2019. The study finds that the factor that affect quality financial reporting quality and suggests that Firm Leverage, Firm Profitability, ownership structure and IFRS adoption influence on positive and statistically insignificant relationship with FRQ Commercial Banks financial reporting quality. However, board of size and Firm size had a negative, and statistically insignificant relationship with FRQ. Finally, recommended IFRS adoption their consistence conversion some elements of financial statement for banks need to enhance by maintaining the current level of reporting quality.

Key word: ***Financial Reporting quality, level of financial leverage, profitability, firm size, board of size, IFRS adoption and ownership structure.***

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List of Acronyms & Abbreviations

BSiz	Board Size
CLRM	Classical Linear Regression Model
EU	European Union
FRQ	Financial Reporting Quality
GAAP	General Accounting accepted principles
IFRS	International Financial Reporting Standard
IASB	International Accounting Standards
Lev	Level of Leverage
NBE	National Bank of Ethiopia
OLS	Ordinary Least Square
OStr	Ownership Structure
PAT	Positive Accounting Theory
PPE	property, plant, and equipment
Prof	Firm of Profitability
ROA	Return of Asset
Siz	Firm Size

CHAPTER ONE
INTRODUCTION

1.1. Background of Study

The primary function of accounting is the provision of information necessary for evaluation of past business decision, which consists of current operating profit and realizable cost saving (Edward & Bell, 1961) and these financial statements are prepared and presented for external users by many entities across the world and have been using a choice of different accounting standards derived from various accounting models for decades (Abulgasem, 2014).

The aim of annual reports is to provide a fair review of the development of a company's business and its position. Transparency is particularly presentation of annual reports for listed companies. The consensus among financial economists is that a rich disclosures environment, and low information asymmetry have many desirable consequences, such as efficient allocation of resources, capital market development, market liquidity, declined cost of capital, lower return volatility and high analyst forecast accuracy (Kothari, et al., 2009)

Quality of financial reporting is influenced by numerous factors. Strasser (2011) the quality of information is positively related to several other factors, including the size of the company. Belkaoui (2002) states that the stakeholder companies appreciate better the quality of information, companies, large, and give them a better reputation. Cohen (2003) proved that the company with diverse ownership and leverage are significantly higher financial information. Bigger of company, the expectation to present high quality financial statement is immense.

The value of financial accounting is generally determined by quality (Pounder,2013). Furthermore, (Lambert, et al., 2007) state that the quality of accounting information can influence the cost of capital, both directly, by affecting market participants' perception about distribution of future cash flows, and indirectly affecting real decisions that alter the distribution of future cash flows.

Majority of Prior studies has been conducted by Monday & Nancy (2016) and Al-Asiry (2017) has been on developed countries where there is adequate infrastructure of political and economic

platform that can absorb the shocks. While the case in developing countries may have a different result as the country's economic, political, and culture as it has a different set up from the developed countries. Studies by Leilina (2015), Asegdew (2016) indicate financial reporting practice could not stop high profile companies from falling in Ethiopia.

Financial reporting proclamation 847_2014 introduced by Ethiopian government and established a regulatory body called "Accounting Auditing board of Ethiopia" to regulate financial reporting quality in it is attempt by instructing financial institutions to adopt IFRS by 2018 this study particularly emphasized on incorporating this progresses and factor that affect financial reporting quality index which has not been used by previous researches while investigating the first time.

1.2. Statement of the Problem

Information irregularities are reduced in companies through improved financial reports (Chen et al., 2009). However, based on the agency theory, many factors tend to weaken manager's ability to obtain relevant information for better supervision of managerial activities (Gomariz & Balesta, 2014). The goal of investors in a private, profit seeking enterprise it is to maximize their wealth which means maximizing the present value of the future cash flows. Wealth maximizing Investors, investment decision requires information that would enable them to predict the future cash flow from the investments and associated volatility risks (Grace & Ambrose, 2013). Investors receive the information they need to evaluate an investment's future cash flows and risks from financial reports. The quality of these reports will strongly influence the decision in the investors.

Financial reporting quality requires companies to voluntarily expand the scope, and quality of the information they report, to ensure that market participants are fully informed to make well-grounded decisions on investment, credit etc. High-quality information facilitates greater transparency and this greater transparency reduces the information asymmetries and satisfies investors and stakeholders' needs.

(Lambert, et al., 2007) obtained empirical data that the quality of accounting information can influence the cost of capital, both directly, by affecting market participants 'perceptions about the distribution of future cash flows, and indirectly, by affecting real decisions that alter the distribution of future cash flows. Chen et al. (2011) found that Financial reporting quality

positively affects private firm's investment efficiency in emerging markets, and this effect enhances bank financing and decreases incentives to minimize earnings for tax avoidance purpose It has been noted in different literatures that firm tend to manipulate financial information to meet investors expectation or to reduce other financial burdens from authorities. Hassan and Bello (2013) stated that when operating performance is poor, managers tend to increase earnings, however, if operating performance is extremely poor, some firms may decrease income further which is so called "taking bath" strategy. Studies like Hassan et.al. (2006) implied that firm's quality of financial statement will most likely be influenced by the capital structure choice they make. Adelopo (2010) stated that the more leveraged the business firms are the higher quality their earnings will be.

The other performance factor influencing Financial reporting quality is liquidity. Easley and O'Hara, (2004) noted that the more liquid the firm is the information presented will be at better quality. Another factor pointed out in the literature is board composition expressed by independent directors. Hassan and Bello (2013) argued that independent directors are free from managerial influence and capable of monitoring them efficiently which improve the quality of financial information conveyed to the users of financial statements. The determinant influences of higher reporting quality include Firm size, type of auditor and ownership structure Surroca, et al., (2010); Ali, et al., (2004); Ray & Gupta (1993).

The preexisting experience shows financial reports produced by different institutions in Ethiopia are based on different standards, it was done due to nonexistence of clear law and professional bodies in charge of regulating the accounting and auditing activities. The financial reports provided by companies are not accepted by government and banks (World Bank, 2007). It was in 2018 as starting era for an international financial reporting standards adoption in Ethiopian Banking sector.

Hence, given such a unique reports environment characterized by regulatory laxities in the accounting profession, and lower reporting quality concern afforded in the country, it is imperative to investigate the factor that affect financial reporting quality Commercial Banks in Ethiopia. Considering the inevitable and high need of financial statement quality in the Ethiopian economy. Therefore, this study aims to investigate the potential main factor that may affect the quality of financial reporting in Ethiopian commercial Banks for the period of 2014-2019

1.3. Objectives of the Study

The broad objective of this study will be going to assess factor that affect financial reporting quality Commercial Banks in Ethiopia.

Specific Objectives

- To examine financial reporting quality is influenced by level of financial leverage
- To investigate firm size influence on financial reporting quality.
- To evaluate whether financial reporting quality is influenced by firms' profitability.
- To investigate whether financial reporting quality is influenced by board size.
- To evaluate whether Commercial banks' implementation of IFRS has improved the quality of financial statements.

1.4. Basic Research Questions

- To what extent level of financial leverage influences financial reporting quality of Commercial Banks in Ethiopia?
- How a firm size influences financial reporting quality of Commercial Banks in Ethiopia?
- To what extent a firm profitability influences financial reporting quality of Commercial Banks in Ethiopia?
- How a board of size influences financial reporting quality of Commercial Banks in Ethiopia?
- To what extent has the implementation of IFRS has improved the quality of financial statements prepared by Commercial Bank?

1.5. Significance of the Study

The overall finding of study significantly useful for investor and/or shareholders, executives and managers particularly banks in the understanding factor that affect financial reporting quality Commercial Banks in Ethiopia.

This research will be a contribution to the body of literature around the quality of financial statements of bank in Ethiopia, thereby constituting the empirical literature for future research in the subject area.

1.6. Scope and Limitation of the Study

This study was limited with its focus of study, and time coverage. The focus of this study deals with the relationship between Financial Reporting quality (FRQ) and factor that affect financial reporting quality Commercial Banks in Ethiopia. Given the scope of the study period (2014-2019) and the frequency of the audited annual financial report the analysis of the seventeen Commercial Banks. Additionally, since it is not possible to incorporate all factors, it is covered only six (level of financial leverage, profitability, firm size, ownership structure, board of size and IFRS adoption) variables that affect FRQs.

The limitation of the study lays in not incorporating other primary data that has been regarded to measure the FRQ in accordance to IASB (2010), the two primary qualitative characteristics of information in financial statements are relevance and faithful representation. Information in financial statements is relevant when it can make a difference to a financial statement user's decision. Relevant information has confirmatory or predictive value. Faithful representation means that the information reflects the real-world economic phenomena that it purports to represent. Relevance and faithful representation make financial statements useful to the reader. There are also some enhancing qualitative characteristics, which are complementary to the fundamental characteristics: comparability, verifiability, timeliness, and understandability. The stated qualitative means of measurement are yet to be integrated in the empirical scholarly research and according to the researcher there is no existing literature that has tested FRQ using those means. Hence, the researcher used the best measures that has empirical and theoretical bases.

1.7. Organization of the Study

This research was organized in to five chapters. The first chapter deals the background of the study area, statement of the problem, objective of the study, significance of study. The second chapter introduces review of related to literature in the area. The third chapter deals with the

research design and methodology. The forth chapter data presentation, analysis, and interpretation and the fifth chapter will contain summary of the major findings, conclusion and recommendation of the study. Finally, list of references and appendix was annex at the end of the page.

CHAPTER TWO
LITERATURE REVIEW

2.1. Introduction

This chapter presents a two-section discussion of the theoretical consideration for the study and a review of prior empirical studies relevant to this research. The first section looks at the objectives of the study from conceptual review considering financial reporting quality. The second section reviews previous empirical works relevant to the study and provides basis for hypothesis development, theoretical review, empirical review and gap identification.

2.2. Theoretical and Conceptual Reviews

2.2.1. Financial Reporting

According to (Sloan 2001) the financial statement is the first source of independent and true communication about the performance of managers. The financial reporting is the product of the accounting process which aims to provide financial information to the interested users such as investors, creditors, employees, management. The financial information must be used to add value to its users (see for instance, IASB, 2010).

2.2.2. Objective of Financial Reporting

The objective of financial reporting is to provide high-quality financial report concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Providing of high quality information on financial report is mainly as it positively affects investors, credit, and other stakeholders similar resource distribution decisions enhancing overall market efficiency (IASB, 2006; IASB, 2008).

FASB on its Statement of Financial Accounting Concepts (2008) have stated the objectives of financial reporting. The objectives of financial reporting underlie decisions about the qualities of financial information, for only when those objectives have been established can a start be made on defining the characteristics of the information needed to attain them. The Board set out the objectives of financial reporting for business enterprises that will guide it. The information covered by that Statement was not limited to the contents of financial statements. Financial reporting is not only financial statements but also other means of communicating information

that relates, directly or indirectly, to the information provided by the accounting system that is, information about a company's resources, obligations, earnings, etc.

2.2.3. Financial Reporting Quality

The value of financial accounting is generally determined by its quality (Pounder, 2013). The main concept of financial accounting quality is that some accounting information is better and more reliable than other accounting information in relation to its characteristic of communicating what it purports to communicate. That is why, accounting quality is of great interest to main types of users involved in the financial reporting chain.

The financial accounting quality has no single, broadly accepted definition. It used accruals to measure quality that is developed by Dechow & Dichev (2002); McNichols (2002) as a proxy for financial reporting quality. Despite the complete lack of bias cannot be achieved, a certain level of accuracy is necessary for financial reporting information to be decision-making useful (IASB, 2008). Barth, Landsman, and Lang (2008) define accounting quality as the ability of accounting measures to reflect the economic position and performance of a firm.

FRQ is the precision with which financial reporting conveys information about a firm's operations (Biddle, et al., 2009). Tang, et al., (2008) stated that financial reporting quality as the extent to which the financial statements provide true and fair information about the underlying performance and financial position. In addition, a commonly accepted definition is provided by Jonas & Blanchet(2000), who argue that quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead users. The financial reporting quality encompasses are both financial information and non-financial information useful for decision making included in the financial reports (Akeju & Babatunde, 2017).

Decision-useful information is information concerning the reporting entity that is valuable to equity investors (present and potential), lenders and other stakeholders in making decisions in their capacity as capital providers and stakeholders (IASB, 2010). Hence, the higher the information usefulness of the financial report, the higher the quality of the financial report and vice versa.

Accounting information has the quality of faithful representation when it accurately depicts what really happened; nothing important has been omitted (i.e. complete); and is not biased toward one position or another (i.e. neutral) (IASB 2010).

The role of financial reporting is complex and, according to financial accounting standard widely (FASB), (2010) it aims to provide even handed financially and other information that together with information of other sources facilitates the efficient functioning of capital and other markets and assists the efficient allocation of the scarce resources in the economy. Therefore, the definition of financial accounting quality is broad and includes financial information, disclosures and non-financial information useful for decision making (Tasios and Bekiaris, 2012).

According to Walter (1993) 'Leverage may be defined as percentage return on equity and the net rate of return on total capitalization.' Kuchhal (1993) state the term leverage 'is used to define a firm's ability to use fixed cost bearing assets or funds to magnify the return to its owners.' Thus, leverage implies the use of fixed cost in an attempt to increase profitability. It can be defined as; leverage is the responsiveness of firm's return to fluctuations in revenue and operating income, and the ability of a firm to magnify the influence resulting in higher return.

According to Verma (1988,) Profitability is composed Profit and Ability to obtain profit from accounting point of view total expenses are less from the total revenues for a certain period. Howard & Upton (1961), conformed that the word profitability may be defined as the ability of an investment to earn to return on its use. Thus, profitability is the ability of an organization to earn profits in other words. profitability is a composite concept relating the efficiency of an organization to earn profit. Gibson & Boyer (1979) "It is the capability of the firm to generate earning."

Board size of organization is the number of directors on board of the organization which includes executive and non-executive directors. Board size has highlighted in chapter one of these study influences the performance of an organization. Lipton & Lorseh (1992) viewed it that small board size can improve the performance of an organization because of the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups and suggested an optimal board size between seven to nine directors.

The disclosure level requested by the IFRS leads to raise the trust of the investors in the quality of the financial information because of improving the level of understanding of the information (Levitt, 1998). The IFRS which were adopted for public financial reporting are better than national accounting standards because it provides more precise, complete and timely financial information. Increasing in the level of information disclosure under IFRS compared with national GAAP lead to reduce the incentive for earnings management because this behavior can be easily discovered by the monitoring bodies represented by the board of directors, and auditors and in turn this should lead to improvements in the quality of the reported earnings (see, for instance, Chow et al., 2010; Ismail et al., 2013; and Bova & Pereira, 2012).

2.3. Related Theoretical Reviews

According to Jensen & Meckling (1976) in proposing a theory of the firm based upon conflict of interest between various contracting parties namely owners, corporate managers and debt holders a vast literature has developed in clarifying both the nature of these conflicts, and means by which they may be resolved. Finance theory has developed both theoretically and empirically to allow a fuller investigation of the problems caused by divergence of interest between shareholders and corporate managers. A review of the literature indicates that four main theoretical frameworks have been used to explain and analyses the association between financial reporting quality and its factors affecting. These are Agency theory and signaling t h e o r y are the most prominently used frequently by the scholars.

2.3.1. Positive Accounting Theory (PAT)

According to PAT, the information in the financial reports can be misleading based on the management motive in several ways (Oluoch, 2014). The management has information advantaged over the owners of the firm and may seek to influence the reporting of earning and capital structure in financial reports due to conflict of interest between the managers (agents) and owners of company (principals).

According to the politico-contractual theory highly leveraged firms adopt accounting methods that increase their profits. In the same line of ideas, Toukabri, et al., (2014) argue that firms that undertake specific expenditures putting out their commitment in social responsibilities, have a primary objective of change in accounting period results and clauses in their contract debt.

2.3.2. Agency Theory

It is considered as a contract between shareholders (principals) and management (agent) to perform a service on behalf of the principal. Shareholders (principals) delegate tasks to be performed by the agent (Jensen & Meckling, 1976). The pursuit of self-interest by the agent increases the cost of forming contract, a loss by the agent due to self-interest and cost of controlling the activity of the agent by the principal. Leuz, et al., (2003), Leilina (2015) assert that the effects of such behavior ultimately reflect in the company earnings. Furthermore, expression of agent cost concerning a variable by the authors include firm size, ownership structure, type of auditor, and financial leverage (Asegdew, 2016). Most researchers that examine factors affecting FRQ between financial reporting quality relied upon agency theory include (Michailesco, 1999; Dechow, Ge and Schrand, 2010; Ahmed, 2012; Fathi, 2013; Hassan & Bello, 2013, Leilina ,2015; Asegdew, 2016)

2.3.3. Signaling Theory

The signaling theory is used to describe the behavior of two parties with access to different information. It means, one party (the sender) must choose whether and how to communicate (or signal) that information and the other party (the receiver) must choose how to interpret the signal (Kamwenji, 2014). Companies with superior performance may use financial reporting to signal to the market while adoption of international accounting standards may signal the company's good management (Oluoch, 2014). However, investors may misinterpret less disclosure as withholding the worst possible information (Verrecchia, 1983). The assumption is voluntary disclosure is positively related to firm performance and quality. Chow & Wong (1987) and Lang & Lundholm (1993) provide empirical support for this theory. Furthermore, the proxy variables for this theory include profitability, liquidity, and leverage of the firm as these variables are the likely means to attract potential investors to the firm.

2.3.4. Proprietary Costs Theory

Teixeira & Lima (2007), stated that proprietary costs theory reflects the costs of disclosures as well as its benefits. Managers consider the costs of disclosing information and do not disclose when costs outweigh the benefits. These costs include not only those of preparing and disseminating the information, but also costs of appropriation of the information by the competitors. Investors know this and do not apply adverse selection. Proprietary cost theory the

practical to disclosure is analytically developed by Verrecchia (1983), Dye (1985), Darrough & Stoughton (1990) and Wagenhofer (1990).

2.4. Empirical Review and Hypothesis Development

2.4.1. Overview of Related Researches

A thorough overview of previous studies has demonstrated that numerous studies have been carried out on the factor that affect FRQ in developed countries such as the United States of America, United Kingdom, and Canada (Monday and Nancy, 2016). These empirical studies on FRQ focus on non-financial firms (Abdul Majid and Ismail, 2008; Thalassinos et al., 2015; Vovchenko et al., 2017). Some factors affecting FRQ relates to specific characteristics of the company includes leverage, firm size, profitability, size of audit firm, and the status of listing (Soheilyfar et al., 2014; Al-Asiry, 2017). The other classification of factors affecting that have influence on FRQ incorporates the features of corporate governance such as board composition, board size, and ownership structure Fathi, **(**2013); Chakroun & Hussainey, (2014); Thalassinos & Liapis, (2014).

Mahboub (2017), conformed that there will be a better financial reporting if the quality of the annual reports in banking sector can be achieved by having higher proportion of debts, higher ownership by the shareholders, and higher board size.

According to Agyei-Mensah (2013) pre and post analysis, investigated the quality of financial reports before and after adopting IFRS in Ghana and found a financial information disclosure mean of 76.80% for pre-adoption period and 87.09% for post-adoption, depicting only an increase in reporting quality after IFRS adoption.

Asegdew (2016) suggests that Firm Profitability, Firm Size, Type of Auditor and Share Dispersion influence manufacturing companies financial reporting quality. However, there were no supports of Firm Leverage, Board Composition and Firm Liquidity of large manufacturing share companies in Ethiopia.

2.4.2. Factors affecting Financial Reporting Quality

The factors affecting financial reporting quality has always been a source of a debate among scholars under the empirical studies conducted around the globe. However, variables such as Leverage, Firm size, Profitability, ownership structure and for big companies Board size has been a consistently confirmed to have a significant effect on financial reporting quality. Lately, the International Financial Reporting Standard (IFRS) adoption has been incorporated in the list of the factors as it significantly alters the reporting quality if it is administered poorly. Hence, the listed variables and their respective association with Financial reporting quality has been discussed in detail as follows.

I FRQ Vs Level of Leverage

Many studies have indicated that there is a positive relation between financial leverage and FRQ as company with a higher debt ratio has an incentive to disclose more information (Deumes & Knechel, 2008; Taylor et al., 2010; Takhtaei et al., 2014). Thus, companies with higher financial leverage are likely subjected to more agency costs; hence, it may presume that it is a direct relationship between financial leverage and FRQ (Murcia, 2010). On the other hand, Zarzeski (1996) & Ahmed (2012) conformed a negative relationship between leverage and disclosure, suggesting that highly leveraged companies tend to disclose private information to their creditors which may not be reflected in their annual reports. These conflicting results provide genuine incentives for further investigation of this relationship. Fathi (2013), Haji & Ghazali (2013) and AL-Asiry (2017) found leverage to be inconclusive in explaining the quality of financial reporting. These results provided strong evidence that leverage does not significantly enhance quality disclosure of information. (Khlif & Souissi, 2010). The conflicting results give an incentive for investigation. From the theoretical point of view, this study anticipates leverage has a positive significant relationship with financial reporting quality.

- ⇨ ***H1:*** *There is a positive relationship between leverage and FRQ commercial banks in Ethiopia.*

II FRQ Vs Firm Size

According to Positive accounting theory (PAT) provides arguments in respect of the size of entities and its relevance for disclosures in financial statements. According to Leftwich, et al. (1981) political costs are higher for large companies, disclosing more information in order to increase confidence in their affairs. Large companies have superior information systems providing them with additional information at no cost. According to the proprietary cost theory

developed by Verrecchia (1983) and Dye (1985) the management quantifies the costs and benefits of disclosing information and decides not to disclose if the costs exceed the benefits. Larger firms are incentive to show a positive effect on financial reporting quality (Prior, et al. (2008); Surroca, et al. (2010). Prior studies on the relationship between the size of the firm and financial reporting quality show mixed result. (Haji & Ghazali (2013), Agyei-Mensah (2013), and Monday & Nancy (2016)) found a significant positive relationship between firm size and financial reporting quality. On the other hand, Majid & Ismail (2008) as well as Takhtaei & Mousavi (2012) found a negative relation between firm size and FRQ. This finding indicated that small-sized companies have revealed their readiness to disclose more might point that they incline to put themselves for competitive advantages and public visibility (Abdul & Ismail, 2008). Hence, this study anticipates firm size has a positive significant relationship with financial reporting quality.

- ⇨ ***H2:*** *There is a positive relationship between size and FRQ in Ethiopian commercial banks.*

III FRQ Vs Profitability

According to Inchausti (1997) the signaling theory suggests that if a company is profitable, it could disclose more information to indicate the credibility of its reported earnings, to increase its reputation and to avoid undervaluation of its equity Firms, profitability has also been argued to have an influence on the quality of financial reporting. Fathi (2013), Takhtaei., et al, (2014) and Al-Asiry (2017) found a significant and positive relation between profitability and FRQ. Alsaeed (2006) argued that a profitable firm felt proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance. In addition, Camfferman & Cooke (2002) and Monday & Nancy (2016) determined that there is a negative relationship between profitability and quality of the information disclosure. Studies by (Agyei-Mensah, 2013; Haji & Ghazali, 2013; Hosseinzadeh et al., 2014) having shown an inconclusive result. Implying profitability may not influence the quality of information disclosure, at least not be an important factor. Thus, based on these points of view, this study assumes a positive relationship between profitability and financial report quality:

⇨ ***H3:*** *There is a positive relationship between profitability and FRQ in Ethiopian commercial banks.*

IV FRQ Vs Ownership Structure

According to (Jensen & Meckling, 1976) the agency theory suggests that in a modern society, due to the separation of ownership and control, there is a possibility of agency conflicts. This conflict may be more important when shares are widely distributed than when they are held by one person (Fama & Jensen, 1983). Managers can therefore voluntarily disclose information as a means to reduce agency conflicts with the shareholders. According to the agency theory (Leftwich.,

et al, 1981) or transaction costs theory (Ray & Gupta, 1993), annual reports is a main source of information for shareholders who cannot incur large expenditures in order to ascertain manager's opportunistic behaviors. Managers of firms whose ownership is diffuse have thus an incentive to increase disclosure quality in order to help shareholders in monitoring their behavior. Gelb (2000), Fan & Wong (2002), Ben-Ali., et al, (2007), Ben -Ali (2008) and Htay *et al.* (2013) found a negative relation between ownership concentration and FRQ. This reveals that FRQ is weak in companies with both high ownership and control concentration (Ben-Ali, 2014). Thus, it can be concluded that under high ownership concentration, controlling shareholders are less dependent on minority shareholders and may take benefits from them; therefore, they have less motive to provide high quality financial reporting (Ben-Ali, 2007). A stronger ownership diffusion should weaken secrecy traditions. so it is assumed that higher owner diffusion will improve reporting quality.

H4: *There is a positive relationship between ownership structure and FRQ in Ethiopian Commercial Banks.*

V FRQ Vs Board Size

Jensen (1993) argued that the board of directors become less effective as it grows in size. This is because a large board is often slow to react to events and will often be incapable of taking action quickly when it is needed. The directors on a large board are also less likely to be critical of each other than directors on small boards. Fathi (2013), Htay et al. (2013), Haji & Ghazali (2013), and

Asegdew (2016) establish positive relationship between board size and financial reporting quality conforming the argument of Haji & Ghazali (2013) that argue Larger board size could provide more competence and knowledge to the firm and may have the capability to monitor excellently, which could consequently lead to higher quality of financial reporting. On the other hand, Yoshikawa and Phan (2003), Byard et al. (2006) and Ostadhashemi, et al., (2017) found a negative relation between board size and FRQ. Contrarily, Ben-Ali (2008), Liu and Sun (2010), Soheilyfar et al. (2014) and Navarro & Urquiza (2015) shows inconclusive result. These results imply the fact that board size may not account for board quality if it does not work proficiently (Uyar et al., 2013). While the board's monitoring ability rises as more directors are joined to the board, the benefit may be exceeded by the cost of inferior communication and decision-making allied with larger groups; therefore, the efficiency and effectiveness of board are working is significant rather than its size (Uyar, et al., 2013). Thus, based on these points of view, this study assumes a positive relationship between board size and financial report quality:

- ***H5:*** *There is a positive relationship between board size and FRQ in Ethiopian commercial banks.*

VI FRQ Vs IFRS Adoption

According to Watts & Zimmerman (1986), related to positive accounting theory which says that the management has intention to apply certain accounting policy and estimates for the management interest, IFRS adoption is expected to increase the opportunistic action of the management. IFRS are increasingly being adopted by countries around the globe as it is commonly believed that they improve financial reporting quality and comparability (Najim & Athambawa, 2016). Furthermore, Healy et.al (1999) Leuz &Verrechia (2000), Daske et.al (2008), and Armstrong et.al (2008), confirmed that the asymmetry information after the IFRS adoption was decreasing due to the increasing of the financial statement quality.

Beneish et al. (2012) provide evidence that IFRS adoption significantly increases the quality of financial statements disseminated by firms and the volume of foreign investment into the financial markets. Furthermore, Ding et al. (2006) claim that the implementation of IFRS increases the level of disclosures in financial reporting process compared to local accounting standards. However, Cheong et al. (2010) argue the attention paid on the treatment of intangibles capitalized in the post-IFRS period have positively aided the financial reporting quality.

Contrarily, Glaum et al. (2008) contend that the mere adoption of IFRS is not sufficient to guarantee a better quality of accounting information. Thus, based on these points of view, this study assumes a positive relationship between IFRS adoption and financial report quality:

D. ***H6:*** *There is a positive relationship between IFRS adoption and FRQ in Ethiopian Commercial Banks.*

2.5. Researcher Gap

The empirical literature that are discussed so far showed that, banks financial reporting qualities are determined by level of Leverage, Firm size, Board Size, profitability, Ownership Structure and IFRS Adoption factors. However, most of the literature that are discussed so far appeared to have focused on studies that were conducted in the banking sector of different countries outside Ethiopia. This is because only few studies have assessed factors affecting FRQs, despite the fact that several studies were conducted by different researchers on the Ethiopian Banking sector. In most of the studies, FRQs are only considered as additional explanatory variable and not deeply investigated.

As the study conducted by Asegdew, K. (2016), conclude that Firm Profitability, Firm Size, type of Auditor and Share Dispersion influence manufacturing companies financial reporting quality. However, there were no supports of Firm Leverage, Board Composition and Firm Liquidity of large manufacturing share company in Ethiopia. The results also, confirms that signaling theory and agency theory are pertinent theory in Ethiopian manufacturing industry. Consequently, the Banking sectors in Ethiopia have so far received low financial reporting quality.

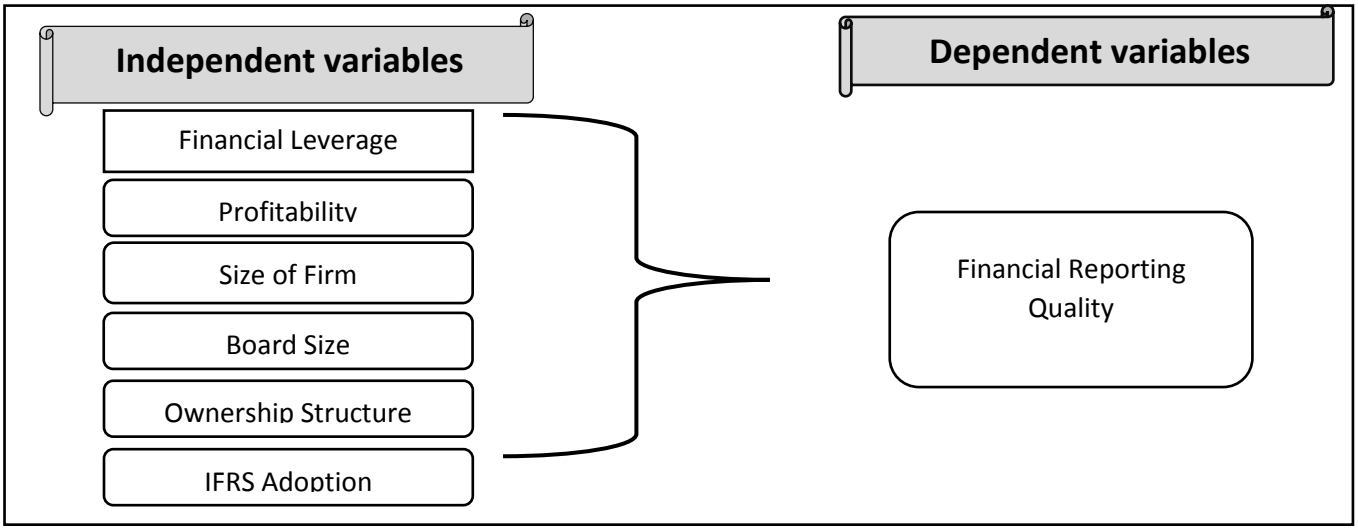
Accordingly, as per the knowledge of the researcher, in general, the lack of sufficient research and IFRS adoption on the factors affecting FRQs in Ethiopian banking sector and the focus of the existing studies being only on the banks specific factors affecting FRQs initiates this study. Hence, the purpose of this study is to investigate the factors affecting FRQs in Ethiopian Commercial Banks by utilizing an econometrics model to estimate the factors affecting of FRQs of Commercial Banks in Ethiopia which is proposed to fill the existing knowledge gap.

2.6. Conceptual Framework

It is pictorial framework showing the interrelationship between variables in the study. Currently there is a hypothesized relationship between quality of financial reporting which factors by level of financial leverage, profitability, firm size, board of size, IFRS adoption and ownership

structure of financial statements and financial performance with others. The relationship will be shown as in figure **2.1.**

Figure 2.1. Conceptual framework



Source: Authors Compilation

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Research Design

Baridam (1990) points out that research design serves as a framework or plan that is used as a guide in collecting and analyzing data for a study. Research design could as well be explained as set of methods and procedures used in collecting, analyzing and measuring of variables specified in the research to draw inferences concerning causal relationship among the variables under investigation. Explanatory studies are characterized by research theories that specify the nature and direction of the relationships between or among variables being studied. Schindler & Cooper (2001) discussed that explanatory studies unlike descriptive studies, go beyond observing and describing the condition and tries to explain the reasons of the phenomenon. Explanatory research is devoted to finding causal relationships among dependent and independent variables. Hypotheses could be basic (relationships exist) or could be directional (positive or negative). The quantitative data collecting methods are useful especially when a study needs to measure the cause and effect relationships evident between pre-selected and discrete variables (Addisu, 2011). The justification for this method is that it will assist the researcher to explain the reasons behind the phenomenon of financial reporting quality in Ethiopia. The other advantage is that it will go beyond the description of the situation in the industry about financial reporting quality because this information is readily available on annual reports and literatures. This explanatory method will allow the researcher to use theory-based expectations on how and why variables should be related.

3.2. Types of Data

The researcher used quantitative data refers to data which is collected by audited annual financial report Commercial Banks in Ethiopia from National Bank of Ethiopia and web site for six years' data.

3.3. Sources of Data

To carry out any research activity information should be gathered from proper sources. Therefore, the achievement of the objective of the researcher used secondary sources of data.

Secondary data was gathered from optional sources such as Commercial Banks audited annual financial reports, National Bank of Ethiopia.

3.4. Sample Design

Sampling size can be defined as the number of units in a population to be sources. Researchers need to have a large sample size to get more accurate results and have a high likelihood of detecting a true result. Concerning population and sampling the study was using Commercial Banks that have a data from 2014-2019. Hence, the sample included 17 Commercial Banks that operate currently in Ethiopia. Since the number of banks in the country is to get more accurate and reliable data to get a full picture toward the intended objectives. The data of the study is the audited financial statement of the Commercial Banks. To measure the influence of specific firm characteristics mechanism on FRQ in annual reports of the Ethiopian Commercial Banks.

3.5. Data Collection Method

The researcher is going to use secondary data collected through annual reports, audited financial statements, magazines, annual published materials and National Bank of Ethiopia data related to six years (2014 – 2019).

3.6. Definition of Variables

Dependent Variable: -Financial Reporting Quality(FRQ) the most frequently used proxy for earnings and accrual quality in financial reporting quality literature is the modified Dechow and Dichev (2002). For instance, accrual models (Van Tendeloo and Vanstraelen, 2005), value relevance models (Barth et al., 2001; Nicholas and Wahlen, 2004) research focusing on specific elements in the annual report (Hirst et al., 2004; Mbobo and Ekpo, 2016). This method was chosen among other methods because these methods have several weaknesses as they only concentrate on financial information disclosed in statements of financial position, and they are not capable to assess FRQ comprehensively (Van Beest et al., 2009). The Dechow and Dichev (2002) model developed a way of mapping cash flows in estimating accrual quality. The financial reporting quality using measures of accruals quality derived in prior work (Dechow and Dichev, 2002; McNichols, 2002) based on the idea that accruals are estimates of future cash flows, and earnings will be more representative of future cash flows when there is lower estimation error embedded in the accruals process (Mc Nichols, 2002). The researcher estimates

discretionary accruals using the Dechow and Dichev (2002) model augmented by the fundamental variables. The model is c composed of working capital accruals on lagged, current, and future cash flows plus the change in revenue and PPE. All variables are scaled by average total assets.

Accrualsi, t = α + β1*CashFlowi, t-1 + β2*Cash Flowi, t + β3*CashFlowi, t+1 + $\beta 4$*Δ$Revenuei,t$ + $\beta 5$*$PPEi,t$ + $\varepsilon i,t$.

where *Accruals* = (ΔCA - ΔCash) – (ΔCL - ΔSTD) – Dep,

ΔCA = % Change in current assets,
ΔCash= Change in cash/cash equivalents,
ΔCL = Change in current liabilities,
ΔSTD= Change in short-term debt,
Dep= Depreciation and amortization expense,

Cash Flow = Net income before extraordinary items minus Accruals

ΔRevenue = Change in revenue,
PPE= Gross property, plant, and equipment

3.6.1. Independent variables

Firm Size: - is measured as the logarithms total assets that refer to the sum of current and non-current assets at the end of firm's reporting year or Size (Logarithms of total assets).

Financial Leverage: - is measured as the ratio of total non-current liabilities to owners' equity and long-term liabilities or Lev (total liabilities/total assets*100)

Ownership Structure: -which is obtained from analysis of shareholding parts in the note to account, measured by the number of shareholders it is the percentage of shares not held by known or concentrated shareholders.

Board of Size: - The presence of independent directors in the board of directors is measured by the proportion of independent (outside) directors on the board.

Profitability: - the profitability of the firm is measured by return on asset or Profit represented by return on asset (net income after tax/total assets*100)

IFRS Adoption: - increase the quality of financial reporting due to the changing accounting standards and disclosures in information for many Banks, and also increase the comparability and transparency of the financial information. IFRS (Dummy variable for the full adoption of IFRS)

The model consists of dependent and independent variable.

The researcher used major dependent variable of financial reporting quality measured by modified Dechow and Dichev (2002) model (Hassan and Bello, 2013; Ferrero, 2014; Madawaki and Amran, 2013; Samaila, 2013; Ma Tao, 2012; Hassan, 2013). The independent variables used are level of leverage, board of size, profitability, firm size, and ownership structure and IFRS. The model proposed is expressed as follows:

$FRQ = \beta0 + \beta1\ Lev + \beta2\ Siz + \beta3\ Prof + \beta4\ OStr + \beta5\ BSiz + \beta6 IFRS + \varepsilon$

Where:

FRQ = Financial Reporting Quality of Company i at time t

$\beta0$ = Intercept

$\beta1$ = Financial Leverage of Company i at time t

$\beta2$ = Firm Size of Company i at time t

$\beta3$ = Profitability of Company i at time t

$\beta4$ = Ownership Structure of Company i at time t

$\beta5$= Board size Company i at time

$\beta6$ =IFRS Adoption of Company I at time t

ε = Error term where i is cross sectional and t time identifier

3.7. Method of Data Analysis

To achieve the objective of the study the research analyzes the raw data collect from the Commercial Banks. The financial statements of sampled Commercial Banks for the period of 2014 – 2019 were analyzed using panel data model. As noted on Brooks (2008) panel data embody information across both time and space. Brooks (2008) stated the advantages of using panel data set; first, and perhaps most importantly, it can address a broader range of issues and tackle more complex problems than would be possible with time series or cross-sectional data

alone. Secondly, it is often of interest to examine how variables, or the relationships change dynamically. Thirdly, through structuring the model in an appropriate way, the researcher can remove the impact of certain forms of omitted variables bias in regression results. OLS regression shall be used to conduct the research following the diagnostic tests have proven there is no violation in the data.

CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

In the preceding chapters, data interpretation and analysis as well as discussion of the results are the basic components of the research that the researcher deals to disclose the results of the findings. As too this chapter deals with the interpretation, analysis and discussion of the result accordingly statistical tools and scientific research procedures.

4.2. Data Presentation and analysis

4.2.1. CLRM Assumptions and Diagnostic tests

Diagnostic test is made to make sure that the classical linear regression model assumption is violated or not. In this study an attempt is made to test Heteroscedasticity, Autocorrelation, normality and Multi-collinearity the result of which are presented and discussed as follows.

i. Heteroscedasticity

When scatter of the errors is different, varying depending on the value of one or more of the independent variables, the error terms are heteroskedastic Brooks (2008). Heteroscedasticity test is very important because if the model consists of heteroscedasticity problem, the OLS estimators are no longer BLUE and error variances are incorrect, therefore the hypothesis testing, standard error and confident level will be invalid. A white' test has been made, to ensure that this assumption is no longer violated.

The hypothesis for the heteroscedasticity test was formulated as follow;

H*$_0$: There is no heteroscedasticity problem.*

H*$_1$: There is heteroscedasticity problem.*

α = 0.05

Decision Rule: Reject H_0 if P value is less than significant level 0.05. Otherwise, do not reject H_0.

Table 4.1. Result of Heteroscedasticity Test: Breusch-Pagan-Godfrey

Heteroscedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.050031	Prob. F(6,60)	0.4026
Obs*R-squared	6.366687	Prob. Chi-Square(6)	0.3834
Scaled explained SS	5.884762	Prob. Chi-Square(6)	0.4362

Source: EVIEWS 10

As shown in table 4.1, all versions of the Breusch-Pagan-Godfrey test statistic (F-statistic, Chi-Square and Scaled explained SS) gave the same conclusion there was no evidence for the presence of heteroscedasticity in this particular study. Since the p-values of 0.4026, 0.3834 and 0.4362 for F-statistic, Chi-Square and Scaled explained SS respectively were in excess of 0.05, the null hypothesis should not be rejected.

ii. Autocorrelation

It is assumed that the distribution errors are uncorrelated with one another and that the errors are linearly independent of one another. Autocorrelation error occurs when there is a serial correlation between residuals and their past values. In this study, Breusch Godfrey Serial Correlation LM Test is used to carry out the autocorrelation test. The p-value is obtained to examine whether the autocorrelation problem occurs in the model. If the p-value is more than 5% significant level, it implies there is no autocorrelation problem in the model. The hypothesis for the model specification test was formulated as follows;

H0*: There is no autocorrelation problem.*

H1*: There is autocorrelation problem.*

α = 0.05

Decision Rule: Reject H0 if P value is less than significant level 0.05. Otherwise, do not reject H0.

Table 4.2: Result of Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.011473	Prob. F(2,58)	0.9886
Obs*R-squared	0.026496	Prob. Chi-Square(2)	0.9868

Source: EVIEWS 10

iii. Normality

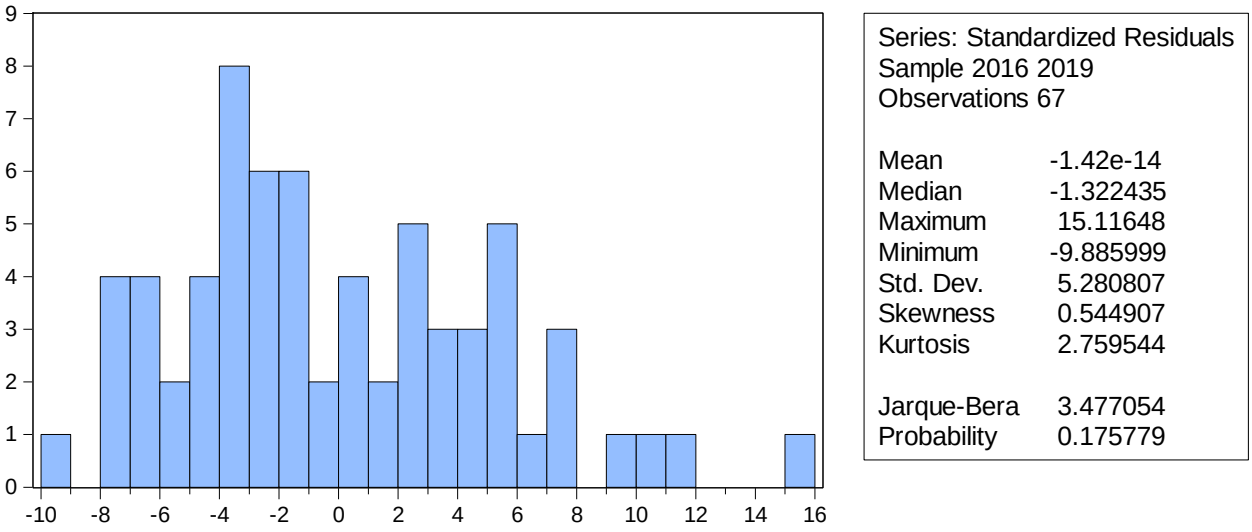
Normality test is used to determine whether the error term is normally distributed. Brooks (2008) noted that the Jarque-Bera statistic would not be significant for disturbance to be normally distributed around the mean. The purpose of the Jarque-Bera test is to make sure that the data set is well-modeled by a normal distribution. The hypothesis for the normality test was formulated as follow:

***H0**: Error term is normally distributed*

***H1**: Error term is not normally distributed*

$\alpha = 0.05$

Figure 4.1. Histogram normality test



Source: EVIEWS 10

Figure 4.2. indicated that distribution of the panel observation is symmetric about its mean. The Jarque-Bera statistic has a P-value of 0.18 implies that the p-value for the Jarque-Bera test is greater than 0.05 which indicates that there was no evidence for the presence of abnormality in the data. Thus, the null hypothesis that the data is normally distributed should not be rejected since the p-value was considerably in excess of 0.05.

iv. Multi collinearity

According to Brooks (2008), multi collinearity will occur if some or all of the independent variables are highly correlated with one another. It shows the regression model has difficulty in explaining which independent variables are affecting the dependent variable. If multi-collinearity

problem is too serious in a model, either additional important variable should be added or unimportant independent variable should be dropped. This study uses high pair-wise correlation coefficients method to detect the existence of multi collinearity a high pair-wise correlation coefficients method sees the correlation of independent variables between each other one by one. According to Guajarati (2004), if the correlation coefficient is higher than 0.8, it is considered as the model consists of serious multi-collinearity problem. Hence, as it can be seen from table 4.3 there is no multi-collinearity problem.

Table 4.3. Results of Multi Collinearity Test: High Pair-Wise Correlation Coefficients

	Lev	ROA	SIZE	BoS	OStr	IFRS
Lev	1.000000					
ROA	0.375242	1.000000				
SIZE	0.713001	0.392339	1.000000			
BoS	0.036633	-0.015777	0.027781	1.000000		
OStr	-0.078170	-0.134830	-0.021634	0.187042	1.000000	
IFRS	-0.096266	-0.104570	-0.010280	0.096188	-0.761802	1.000000

Source: EVIEWS 10

v. Model Specification

Model specification error occurs when omitting a relevant independent variable, including unnecessary variable or choosing the wrong functional form. When the omitted variable is correlated with the variable which included, the estimators will be biased and inconsistent and model specification error will tend to occur. If the omitted variable is not correlated with the included variable, the estimators are unbiased, consistent and model specification error will not occur. Therefore, to select a correct estimated model, the researcher had carry out the Ramsey-RESET Test to check on the model specification. The hypothesis for the model specification test was formulated as follows;

H*$_0$: The model specification is correct.*

H*$_1$: The model specification is incorrect.*

$\alpha = 0.05$

Decision Rule: Reject H_0 if P value is less than significant level 0.05. Otherwise, do not reject H_0.

Table 4.4. Result of Model Specification Test

Ramsey RESET Test
Equation: UNTITLED
Specification: LFRQ LEVERAGE ROA SIZE BOARD_OF_SIZE OWNERSHIP IFRS C
Omitted Variables: Squares of fitted values

	Value	Df	Probability
t-statistic	0.441717	59	0.6603
F-statistic	0.195114	(1, 59)	0.6603
Likelihood ratio	0.221204	1	0.6381

Source: EVIEWS 10

From table 4.5, it can be concluded that this research does not reject null hypothesis (H_0), since the p value is 0.6603, which is greater than significance level of 0.05. Thus, it can be concluded that the model specification is correct from year 2014 to 2019. Overall reliability and validity of the model was enhanced further by the Prob (F-statistic) value of 0.000000.

vi. Model Selection Test: Random Verses Fixed Effect Model

The econometrics model used to examine the factor affecting on financial reporting quality Commercial Banks in Ethiopia is a panel data regression model which should be either fixed-effects or random-effect model. To determine whether the fixed effects are necessary or not this study run the Hausman specification test as recommended by brooks (2008) and others. The hypothesis for the model selection test was formulated as follow;

***H_0**: Random effects model is appropriate.*

***H_1**: Fixed effects model is appropriate.*

α = 0.05

Decision Rule: Reject H_0 if P value is less than significant level 0.05. Otherwise, do not reject H_0

Table 4.5. Result of Model Selection Test

Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

Source: EVIEWS 10

As shown in Table 4.4 above, the Hausman specification test for this study has a p-value of 1.0000 for the regression models. This indicates that p-value is not significant and then the null hypothesis is not rejected justifying as random effect model is appropriate for the given data set in this study. The p-value of F-test 0.000000 is less than the significant level at 0.05, therefore, there is a sufficient evidence to conclude that this model is significant.

vii. Random Effect Regression result

This section presents a fixed effect model regression result to examine the impact of explanatory variables (LEV, PROF, LOG_SIZE, BSiz, OStr and IFRS adoption) on the financial reporting quality proxy FRQ of Commercial Banks in Ethiopia. Table 5 displays random effect model regression estimation result.

4.3 Interpretation of The Result

The empirical evidence on the factors affecting FRQ of Ethiopian Commercial Banks' financial reporting quality is studied based on balanced panel data, where all the variables are observed for each cross-section and each time period. The study has a time series segments spanning from the period 2014 up to 2019 and a cross section segment which considered seventh commercial banks. To test the relationship between these commercial banks financial reporting quality and identified financial reporting quality determinant variables the following linear regression model is developed.

$$FRQ = \beta 0 + \beta 1\ Lev + \beta 2\ Siz + \beta 3\ Prof + \beta 4\ OStr + \beta 5\ BSiz + \beta 6 IFRS + \varepsilon$$

The definition of all individual variables included in the above equation is discussed in the methodology part of the study.

Table 4.6. Result of Ordinary Least Square (OLS) Model

Dependent Variable: FRQ
Method: Panel EGLS (Cross-section random effects)
Date: 05/06/20 Time: 13:48
Sample (adjusted): 2016 2019
Periods included: 4
Cross-sections included: 17
Total panel (unbalanced) observations: 67
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEVERAGE	0.207100	0.096564	2.144699	0.0360
ROA	2.648858	0.751821	3.523255	0.0008
SIZE	-9.396789	1.930943	-4.866424	0.0000
BOARD_OF_SIZE	-0.612358	0.394419	-1.552556	0.1258
OWNERSHIP	-17.41551	5.476711	-3.179921	0.0023
IFRS	3.908642	1.398243	2.795396	0.0070
C	91.75247	20.73842	4.424275	0.0000

Effects Specification	S.D.	Rho
Cross-section random	2.298747	0.2066
Idiosyncratic random	4.504682	0.7934

Weighted Statistics

R-squared	0.321855	Mean dependent var	-0.405841
Adjusted R-squared	0.254041	S.D. dependent var	5.745419
S.E. of regression	4.962711	Sum squared resid	1477.710
F-statistic	4.746114	Durbin-Watson stat	2.297088
Prob(F-statistic)	0.000512		

Unweighted Statistics

R-squared	0.457144	Mean dependent var	-0.588024
Sum squared resid	1840.537	Durbin-Watson stat	1.844260

Source: EVIEWS 10

The developed model by Ordinary Least Square (OLS) model:

FRQ= 91.75247 + 0.207100Lev + 2.648858 Prof -9.396789 Siz -0.612358BSiz - 17.41551OStr+3.908642IFRS

Above table 4.6, showed that the empirical result tested by Ordinary Least Square (OLS) from E-views software. The R-squared of this model is 0.321855, which means that 32% of the total variation of FRQ in commercial banks in Ethiopia is explained by the total variation of leverage, profitability, firm of size, boards of size, ownership structure and IFRS adoption. Whereas, the

adjusted R squared is 0.254041, which means that 25% of the total variation of FRQ in Ethiopian commercial banks is explained by the total variation of leverage, profitability, firm of size, boards of size, ownership structure and IFRS adoption, by taking into account the number of independent variables and sample sizes. Although the remaining 68% and 75% of the change is explained by other factors which are not included in this study model, both the R-squared and the Adjusted R-squared values in this study are found to be sufficient to infer that the fitted regression line is very close to all the data points taken together (has more explanatory power). For panel data, R-Squared greater than 20% is still large enough for reliable decisions (Cameron, 2009; Hsiao, 2007, cited in Nyamsogoro, 2010)

The dependent variable being regressed is Financial reporting the quality of Commercial Banks which is measured by financial reporting quality. The corporatize government explanatory variables (Board of size and ownership) and bank specific variables (Level of leverage, Firm size, profitability and IFRS adoption) are found to be a significant repressor of financial reporting the quality of Commercial Banks in Ethiopia. On the other hand, the findings revealed that, there was no significant association among board Size and FRQs in Ethiopian Commercial Banks. The following section demonstrates the impact of each explanatory variable on Ethiopian Commercial Banks FRQ.

4.3.1. Leverage of Firm

Hypothesis testing of the relationship between leverage of firm (Lev) and Ethiopian Commercial Banks FRQ:

H0*: Leverage of firm does not have a significant effect on Commercial Banks FRQ.*

H1*: Leverage of firm has a significant effect on Commercial Banks FRQ.*

Conclusion: Reject H0 since there is a positive significant relationship between leverage of firm (Lev) and financial reporting quality. The E-view result on the table above 4.6, showed that the coefficient of leverage of firm (Lev) is positive. According to the regression result beta is 0.207100 and is highly significant (0.0360) at 95%. This means that an increase by 1% of leverage growth result in 0.207% increase of financial reporting quality, holding other variables constant.

Financial leverage is a measure of long term financing that the companies used, it is measured by the ratio of long-term debt for long-term capital. The regression result of random effect model as

reported on the table 4.6 above clearly show that financial leverage as measured by ratio of long term debt for long -term capital has statistically significant positive impact on financial reporting the quality of Commercial Banks in Ethiopia. This result indicates that the one hypothesis of the study is accepted, since the t statistic value is less than 0.05. This implies that in Ethiopian Commercial Banks financial reporting quality was influenced by the Banks financing decision which leads us to reject the working hypothesis of the study, financial reporting quality is positively related to firm leverage.

This shows that the companies produced more disclosure in their financial statement before requesting for loan. This finding is consistent with agency theory that financial institution(Banks) with a higher debt ratio has an incentive to disclose more information.

This regression finding is consistent with some existing findings in the literature. Many studies have indicated that there is a positive relation between financial leverage and FRQ as company with a higher debt ratio has an incentive to disclose more information (Deumes & Knechel, 2008; Taylor et al., 2010; Takhtaei et al., 2014). Thus, companies with higher financial leverage are likely subjected to more agency costs; hence, it may presume that it is a direct relationship between financial leverage and FRQ (Murcia, 2010).

4.3.2. Profitability

Hypothesis testing of the relationship between profitability and Ethiopian Commercial Banks FRQ:

H0*: profitability does not have a significant effect on Commercial banks FRQ.*
H1*: profitability has a significant effect on Commercial banks FRQ.*

Conclusion: Reject H0 since there is a positive and significant relationship between profitability (ROA) and Financial reporting quality commercial banks. The E-view result on the table above 4.6. Showed that the coefficient of profitability (ROA) is positive. According to the regression result, beta is 2.648858 and is highly significant (0.0008) at 99%. This means that an increase of profitability by 1%, on average result in 2.649% increase of financial reporting quality, holding other variables constant.

The regression result above also shows that profitability, measured by return on the asset has a statistically significant positive impact on financial reporting the quality of Commercial Banks in

Ethiopia. According to (Inchausti 1997) the signaling theory suggests that if a company is profitable, it could disclose more information to indicate the credibility of its reported earnings, to increase its reputation and to avoid undervaluation of its equity Firms**,** profitability has also been argued to have an influence on the quality of financial reporting. Fathi (2013), Takhtaei et al. (2014) and Al-Asiry (2017) found a significant and positive relation between profitability and FRQ. Alsaeed (2006) argued that a profitable firm felt proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance.

4.3.3. Firm Size

Hypothesis testing of the relationship between Firm of Size and financial reporting quality:

H0*: Firm of Size does not have a significant effect on Commercial Banks FRQ.*

H1*: Firm of Size has a significant effect on Commercial Banks FRQ.*

Conclusion: Reject H_0 since there is a negative and significant relationship between Firm of Size (log size) and financial reporting quality. The E-view result on the table above 4.6, showed that the coefficient of Firm of Size (log size) is positive. According to the regression result beta is -9.396789 and is highly significant (0.0000) at 99%. This means that an increase by 1% of Firm of Size result in 9.39% decrease of financial reporting quality, holding other variables constant. The magnitude of the coefficient estimate (-9.396) for log size was the largest of all the variables used in the model, which indicates that, log size had a great impact in explaining the variation of financial reporting quality's commercial banks in Ethiopia.

Regarding total asset impact on financial reporting quality, previous studies of Prior Majid & Ismail (2008) as well as Takhtaei & Mousavi (2012) found a negative relation between firm size and FRQ. This finding indicated that small-sized companies have revealed their readiness to disclose more might point that they incline to put themselves for competitive advantages and public visibility.

4.3.4. Board Size

Hypothesis testing of the relationship between Board of Size and Financial reporting quality: ***H0:*** *Board of size does not have a significant effect on Commercial Banks Financial reporting*

quality.

***H1**: Board Size has a significant effect on Commercial Banks FRQ.*

Conclusion: Do not reject H0 since there is a negative and insignificant relationship between Board of Size (BSiz) and Financial reporting quality. The E-view result on the table above 4.6, showed that the coefficient of Board of Size (BSiz) is positive. According to the regression result beta is -0.612358 and is highly significant (0.1258) at 95%. This means that an increase by 1% of Board Size result in 0.61% decrease of FRQs, holding other variables constant. The magnitude of the coefficient estimate (-0.61) for BSiz was the largest of all the variables used in the model, which indicates that, BSiz had a great impact in explaining the variation of FRQs in Ethiopian commercial banks. The expected negative coefficient estimates of Board Size and FRQs, Ben-Ali (2008), Liu and Sun (2010), Soheilyfar et al. (2014) and Navarro & Urquiza (2015) shows inconclusive result. These results imply the fact that board size may not account for board quality if it does not work proficiently (Uyar et al., 2013).

4.3.5. Ownership Structure

Hypothesis testing of the relationship between Ownership Structure and Financial reporting quality:

***H0**: Ownership Structure does not have a significant effect on Commercial Banks FRQ.*

***H1:** Ownership Structure has a significant effect on Commercial banks FRQ.*

Conclusion: Reject H0 since Ownership Structure, and Ethiopian Commercial Banks FRQs have negative and significant relationship. The E-view result on the table above 4.6, showed that the coefficient of Ownership Structure (OStr) is negative. According to the regression result, beta is -17.41551 and is significant (0.0023) at 99%. This means that an increase of Ownership Structure by 1%, on average result in 17.42% reduction of FRQs, holding other variables constant. The expected negative coefficient estimates of ownership structure indicated that Ethiopian commercial banks instance, Gelb (2000), Fan and Wong (2002), Ben-Ali *et al*. (2007), Ben -Ali (2008) and Htay *et al.* (2013) found a negative relation between ownership concentration and FRQ. This reveals that FRQ is weak in companies with both high ownership and control concentration (Ben-Ali, 2014). Thus, it can be concluded that under high ownership concentration, controlling shareholders are less dependent on minority shareholders and may

take benefits from them; therefore, they have less motive to provide high-quality financial reporting (Ben-Ali, 2007).

4.3.6. IFRS Adoption (IFRS)

Hypothesis testing of the relationship between IFRS Adoption and Commercial Banks in Ethiopia FRQ:

H0*: IFRS Adoption does not have a significant effect on Commercial Banks FRQ.*

H1*: IFRS Adoption has a significant effect on Commercial Banks FRQ.*

Conclusion: Reject H0 since there is a positive and significant relationship between IFRS Adoption and Financial reporting quality. The E-view result on the table above 4.6, showed that the coefficient of IFRS Adoption is positive. According to the regression result beta is 3.908642 and is highly significant (0.0070) at 99%. This means that an increase by 1% of IFRS Adoption growth result in 3.91% increase of FRQs, holding other variables constant.

The expected positive coefficient estimates of IFRS Adoption indicated that Ethiopian commercial banks instance. According to Watts &Zimmerman, (1986), related to positive accounting theory which says that the management has intention to apply certain accounting policy and estimates for the management interest, IFRS adoption is expected to increase the opportunistic action of the management. IFRS are increasingly being adopted by countries around the globe as it is commonly believed that they improve financial reporting quality and comparability (Najim & Athambawa, 2016). Healy et.al (1999) Leuz &Verrechia (2000, Daske et.al (2008), and Armstrong et.al (2008), confirmed that the asymmetry information after the IFRS adoption was decreasing due to the increasing of the financial statement quality.

Beneish et al. (2012) provide evidence that IFRS adoption significantly increases the quality of financial statements disseminated by firms and the volume of foreign investment into the financial markets. Furthermore, Ding et al. (2006) claim that the implementation of IFRS increases the level of disclosures in financial reporting process compared to local accounting standards.

Table 4.7. Summary of hypothesized and actual Impact

Independent Variables	Hypothesized	Actual Result	Status
Firm Leverage	Positive and significant	Positive and significant	Accept
Board of size	Positive and significant	Negative and insignificant	Reject
Firm Profitability	Positive and significant	Positive and significant	Accept
Firm Size	Positive and significant	Negative and significant	Reject
Ownership structure	Positive and significant	Negative and significant	Reject
IFRS adoption	Positive and significant	Positive and significant	Accept

Source: researchers own data collection result 2020

CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

The previous chapter presented the Data Interpretation, Analysis and Discussion, while these chapter deals with the conclusions, recommendations and futures study recommendation based on the findings of the study. Hence, this chapter is organized into three sub-sections. The first section presents the conclusions, the second presents the recommendations and third deals with future research area recommendations.

5. 1. Conclusions

The general acceptability and adoption of the International Financial Reporting Standards as the new global standard and framework for corporate financial reporting has been renowned as the greatest revolution ever witnessed within the accounting profession. Nevertheless, the factors that affect quality of financial reporting are not well understood in the current accounting literature because the meaning of quality in accounting is rather different from those in many other fields. Furthermore, different accounting settings and regulations are one of the main causes that result different quality or substandard quality in on financial reporting. can we measure a financial reporting quality? Extensive research has attempted to find the answer specifically in banking sector; however, the findings of prior empirical studies have provided varying evidence related to the impact of these Banks on financial reporting quality. Furthermore, many of these studies have been conducted in developed countries that have many institutional similarities and developed regulatory framework.

Despite it the above, the main objective of this study was to examine the relationship between financial reporting quality and firm specific (Firm financial Leverage, Board of size, Firm Profitability, Firm Size, Ownership structure and IFRS adoption) on factor affecting on financial reporting quality in Commercial Banks in Ethiopia. To achieve the intended objective, the study used by quantitative approaches. The quantitative data were collected through the annual financial report from seventh Commercial Banks over the period from 2014 to 2019. The collected data were analyzed by multivariate OLS model using explanatory statistical package EVIEWS 10.

In addition, to conduct the empirical analysis, one dependent variable (FRQ), and six independent variables were selected from prominent previous research works on financial reporting quality; namely firm leverage, board size, firm profitability, firm size, Ownership structure and IFRS adoption. The results of the random effect estimation model showed the existence of the following relationship between FRQ and independent variables.

Concerning to the effect of profitability on the financial reporting the quality of Commercial Banks in this study, the result shows there was positive and statistically significant relationship with FRQ, which is in line with the signaling theory. Besides, the results of study indicated that leverage had statistically positive significant relationship with FRQ, in addition the result shows there was positive and significant relationship IFRS adoption with FRQ.

Unexpectedly, firm size had a negative relationship with financial reporting quality, and statistically significant. This result was also consistence with Signal theory, and other studies which reveals significant impact. Similarly, in addition to ownership structure had negative and statistically significant, however, board of size had a negative, and statistically insignificant relationship with FRQ, which was not also in line the expected sign. The result suggests that Bank's number of board size does not influence the FRQ of Commercial Banks during the study period. This result was also consistence with agency theory and other studies which reveals significant impact. In addition to the findings of random effect regression results.

In conclusion, the finding of the study suggests that Firm Leverage, Firm Profitability, Firm Size, ownership structure and IFRS adoption influence Commercial Banks financial reporting quality. However, there were no supports of Board of size of Commercial Banks in Ethiopia. The results also, confirms that signaling theory, and agency theory are pertinent theory in Ethiopian Commercial Banks.

5.2. Recommendations

The findings of the study showed that Financial leverage, Profitability, firm size, Size of board, ownership structure and IFRS adoption was the significant drivers of FRQs in Ethiopian, commercial banks during the study, period. Therefore, focusing and taking the necessary action on these indicators could reduce the probability of Financial reporting quality in Ethiopian all commercial banks.

Based on the findings of the study the following possible recommendations are forwarded:

There is a need for Commercial Banks to reflect, as it was found significant relationship between factors affecting FRQs after adoption of IFRS.

Since total assets, negatively affect the financial reporting quality of Commercial banks, it is an evidence that the level of total asset as adverse consequence on financial reporting quality hence the banks under the study need the pay a due attention on managing their asset to enhance the reporting quality.

Ownership structure on private banks mechanisms, divergent interests of managers, directors, and shareholders may reason the first to act against interests of the shareholders. Directors as the intermediate party seek to control managers and ensure proper representation of the interests of shareholders. However, directors also are focus to resourcefulness. So that recommended, besides there should be strong internal and independent from management and board of directors controlling mechanism.

It is concluded that firms with better IFRS adoption have a better reporting quality, so, it is strong recommended IFRS adoption their consistence conversion some elements of financial statement for banks need to enhance by maintaining the current level of reporting quality.

5.3. Future Research Recommendation

This study examined the factor that affect quality of Financial reporting in commercial banks of Ethiopia by considering pre and post adoption IRS data of commercial banks in Ethiopia. However, there are so several variables not included in this study. Thus, recommended for future researchers to further assess factors affecting on financial reporting the quality by incorporating additional bank specific factors. It is also recommended for future researchers to study the factors affecting on FRQs in different economic sectors.

This study examined only firm specific Factors affecting financial reporting the quality of Commercial Banks in Ethiopia because of resource and time limitation. Thus, future researcher may address these deficiencies by identifying different variables for reporting quality and conducting more qualitative investigation of each company. Further this study explained variation in FRQ by considering IFRS adoption, other researchers shall identify and clarify the path for including other variables like comparability and investment decision.

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Appendix – A

Table. List of Commercial Banks in Ethiopia

No	Name of Banks	Year of Establishment
1	Commercial Bank of Ethiopia	1942 GC
2	Awash International Bank	1994 G.C
3	Dashen Bank	1995 G.C
4	Bank of Abyssinia	1996 G.C
5	Wegagen bank	1997 G.C
6	United bank	1998 G.C
7	Nib International bank	1999 G.C
8	Cooperative Bank of Oromia	2004 G.C
9	Lion International bank	2006 G.C
10	Zemen bank	2008 G.C
11	Oromia international bank	2008 G.C
12	Buna international bank	2009 G.C
13	Berhan international bank	2009 G.C
14	Abay bank	2010 G.C
15	Addis international bank	2011 G.C
16	Debub global bank	2012 G.C
17	Enat bank S.C	2012 G.C

Source: - National Bank of Ethiopia

Appendix – B

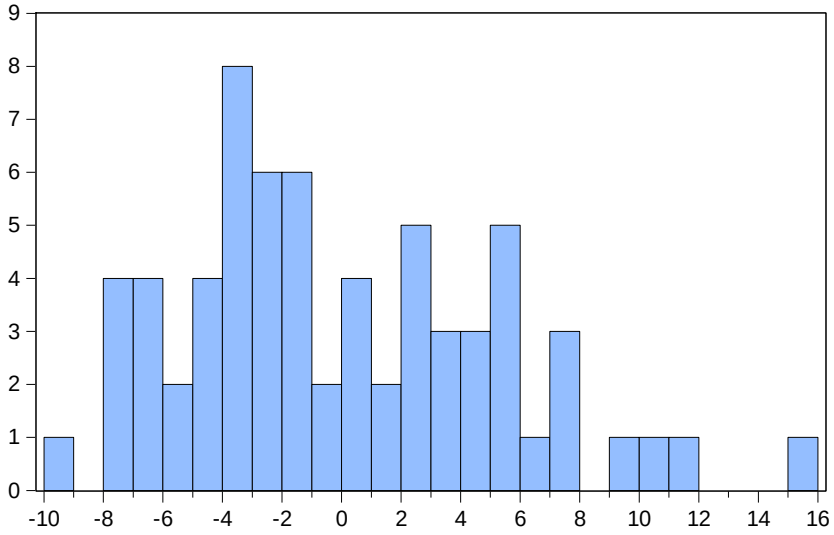
Result of **EVIEWS 10**

Dependent Variable: ACCRUAL
Method: Least Squares
Sample (adjusted): 2 101
Included observations: 67 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CASHFLOW,t-1	-0.006152	0.022605	-0.272136	0.7864
CASH_FLOW ,t	0.063338	0.025544	2.479562	0.0159
CASHFLOW,t+1	-0.101891	0.011226	-9.076599	0.0000
ΔREVENUE	3923098.	28770850	0.136357	0.8920
PPE	-0.006692	0.008113	-0.824907	0.4126
C	-17757093	8904049.	-1.994272	0.0506

R-squared	0.845428	Mean dependent var	-60951571
Adjusted R-squared	0.832758	S.D. dependent var	89159980
S.E. of regression	36462155	Akaike info criterion	37.74673
Sum squared resid	8.11E+16	Schwarz criterion	37.94417
Log likelihood	-1258.516	Hannan-Quinn criter.	37.82486
F-statistic	66.72765	Durbin-Watson stat	2.362212
Prob(F-statistic)	0.000000		

Appendix – C



Series: Standardized Residuals
Sample 2016 2019
Observations 67

Mean	-1.42e-14
Median	-1.322435
Maximum	15.11648
Minimum	-9.885999
Std. Dev.	5.280807
Skewness	0.544907
Kurtosis	2.759544
Jarque-Bera	3.477054
Probability	0.175779

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LEVERAGE	0.091043	0.207100	0.026567	0.4764
ROA	-0.316653	2.648858	0.584116	0.0001

SIZE	2.075473	-9.396789	16.806963	0.0051
BOARD_OF_SIZE	-0.853379	-0.612358	0.300438	0.6601
IFRS	0.702068	3.908642	1.079131	0.0020

Cross-section random effects test equation:

Dependent Variable: FRQ

Method: Panel Least Squares

Sample (adjusted): 2016 2019

Periods included: 4

Cross-sections included: 17

Total panel (unbalanced) observations: 67

WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-20.11347	34.90166	-0.576290	0.5673
LEVERAGE	0.091043	0.189450	0.480564	0.6332
ROA	-0.316653	1.072078	-0.295364	0.7691
SIZE	2.075473	4.531612	0.457999	0.6492
BOARD_OF_SIZE	-0.853379	0.675281	-1.263739	0.2128
OWNERSHIP	NA	NA	NA	NA
IFRS	0.702068	1.741899	0.403047	0.6888

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.730673	Mean dependent var	-0.588024
Adjusted R-squared	0.604987	S.D. dependent var	7.167342
S.E. of regression	4.504682	Akaike info criterion	6.106798
Sum squared resid	913.1470	Schwarz criterion	6.830727
Log likelihood	-182.5777	Hannan-Quinn criter.	6.393258

F-statistic	5.813471	Durbin-Watson stat	3.005488
Prob(F-statistic)	0.000000		

Dependent Variable: FRQ

Method: Panel EGLS (Cross-section random effects)

Sample (adjusted): 2016 2019

Periods included: 4

Cross-sections included: 17

Total panel (unbalanced) observations: 67

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEVERAGE	0.207100	0.096564	2.144699	0.0360
ROA	2.648858	0.751821	3.523255	0.0008
SIZE	-9.396789	1.930943	-4.866424	0.0000
BOARD_OF_SIZE	-0.612358	0.394419	-1.552556	0.1258
OWNERSHIP	-17.41551	5.476711	-3.179921	0.0023
IFRS	3.908642	1.398243	2.795396	0.0070
C	91.75247	20.73842	4.424275	0.0000

Effects Specification		
	S.D.	Rho
Cross-section random	2.298747	0.2066
Idiosyncratic random	4.504682	0.7934

Weighted Statistics			
R-squared	0.321855	Mean dependent var	-0.405841

Adjusted R-squared	0.254041	S.D. dependent var	5.745419
S.E. of regression	4.962711	Sum squared resid	1477.710
F-statistic	4.746114	Durbin-Watson stat	2.297088
Prob(F-statistic)	0.000512		

Unweighted Statistics

R-squared	0.457144	Mean dependent var	-0.588024
Sum squared resid	1840.537	Durbin-Watson stat	1.844260

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.011473	Prob. F(2,58)	0.9886
Obs*R-squared	0.026496	Prob. Chi-Square(2)	0.9868

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Sample: 2 101

Included observations: 67

Presample and interior missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEVERAGE	0.000348	0.092446	0.003760	0.9970
ROA	-0.037297	0.849242	-0.043918	0.9651
SIZE	0.045443	1.806362	0.025157	0.9800
BOARD_OF_SIZE	0.000341	0.378878	0.000899	0.9993
OWNERSHIP	0.048252	5.488159	0.008792	0.9930
IFRS	-0.083030	1.804197	-0.046020	0.9635
C	-0.412199	20.76264	-0.019853	0.9842
RESID(-1)	0.021082	0.179880	0.117203	0.9071

RESID(-2)	0.017674	0.278336	0.063500	0.9496

R-squared	0.000395	Mean dependent var	-1.64E-14
Adjusted R-squared	-0.137481	S.D. dependent var	5.223666
S.E. of regression	5.571184	Akaike info criterion	6.397499
Sum squared resid	1800.209	Schwarz criterion	6.693652
Log likelihood	-205.3162	Hannan-Quinn criter.	6.514688
F-statistic	0.002868	Durbin-Watson stat	2.048102
Prob(F-statistic)	1.000000		

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.050031	Prob. F(6,60)	0.4026
Obs*R-squared	6.366687	Prob. Chi-Square(6)	0.3834
Scaled explained SS	5.884762	Prob. Chi-Square(6)	0.4362

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 05/06/20 Time: 13:51

Sample: 2 101

Included observations: 67

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.88636	148.8714	0.147015	0.8836
LEVERAGE	-0.570217	0.678510	-0.840396	0.4040
ROA	-8.711731	5.983450	-1.455971	0.1506
SIZE	8.344170	13.05140	0.639331	0.5250
BOARD_OF_SIZE	3.343541	2.767502	1.208144	0.2317

OWNERSHIP	-44.31872	39.55285	-1.120494	0.2670
IFRS	2.060325	12.34590	0.166883	0.8680

R-squared	0.095025	Mean dependent var	26.87942
Adjusted R-squared	0.004528	S.D. dependent var	41.11797
S.E. of regression	41.02478	Akaike info criterion	10.36484
Sum squared resid	100981.9	Schwarz criterion	10.59518
Log likelihood	-340.2220	Hannan-Quinn criter.	10.45598
F-statistic	1.050031	Durbin-Watson stat	2.699612
Prob(F-statistic)	0.402596		

Ramsey RESET Test

Equation: UNTITLED

Specification: LFRQ LEVERAGE ROA SIZE BOARD_OF_SIZE OWNERSHIP IFRS C

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.441717	59	0.6603
F-statistic	0.195114	(1, 59)	0.6603
Likelihood ratio	0.221204	1	0.6381

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	5.936039	1	5.936039
Restricted SSR	1800.921	60	30.01536
Unrestricted SSR	1794.985	59	30.42348

LR test summary:

	Value	df
Restricted LogL	-205.3295	60

Unrestricted LogL -205.2189 59

Unrestricted Test Equation:

Dependent Variable: FRQ

Method: Least Squares

Date: 05/06/20 Time: 13:52

Sample: 2 101

Included observations: 67

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEVERAGE	0.178020	0.093128	1.911575	0.0608
ROA	3.352605	0.804545	4.167080	0.0001
SIZE	-10.48336	1.773913	-5.909740	0.0000
BOARD_OF_SIZE	-0.544025	0.372091	-1.462077	0.1490
OWNERSHIP	-20.12745	5.319723	-3.783552	0.0004
IFRS	4.373558	1.666491	2.624411	0.0110
C	105.0073	20.07519	5.230701	0.0000
FITTED^2	0.011173	0.025295	0.441717	0.6603

R-squared	0.470580	Mean dependent var	-0.588024
Adjusted R-squared	0.407767	S.D. dependent var	7.167342
S.E. of regression	5.515748	Akaike info criterion	6.364743
Sum squared resid	1794.985	Schwarz criterion	6.627989
Log likelihood	-205.2189	Hannan-Quinn criter.	6.468910
F-statistic	7.491802	Durbin-Watson stat	2.022484
Prob(F-statistic)	0.000002		

	LEVERAGE	ROA	SIZE	BOARD SIZE	OWNERSHIP	IFRS
LEVERAGE	1.000000	0.375242	0.713001	0.036633	-0.078170	-0.096266
ROA	0.375242	1.000000	0.392339	-0.015777	-0.134830	-0.104570

SIZE	0.713001	0.392339	1.000000	0.027781	-0.021634	-0.010280
BOARD SIZE	0.036633	-0.015777	0.027781	1.000000	0.187042	0.096188
OWNERSHIP	-0.078170	-0.134830	-0.021634	0.187042	1.000000	-0.761802
IFRS	-0.096266	-0.104570	-0.010280	0.096188	-0.761802	1.000000