Assessment of Factors Affecting Implementation of Financial Statements of Listed Banks at Nairobi Securities Exchange

Ezekiel Nyamongo Achoki, Ayuma Okello & Jared Bogonko
MBA Student, Kisii University, Kenya

Abstract: Financial statement is an important factor of a company's performance and sustainability. This study assesses the factors that affect the implementation of financial statements. The study used theoretical underpinnings to identify the factor and used survey research to determine its effect on banks listed on the Nairobi Securities Exchange (NSE). Purposive sampling was used to identify the sample from the list of publicly listed companies on the NSE. The study applies both qualitative and quantitative methods of data analysis. A pilot study was first conducted to test the reliability of the research tool, corrections made and then used for the research. The questionnaire was used to collect data from a purposive sample of 10 banks. Statistical Packages for Social Sciences (SPSS) version 24 was used for data analysis and results presented using tables and figures. The results were consistent with the alternative hypothesis of the study.

Keywords: Adoption of IFRSS, Competence, Regulators

1. Background

The main duty of the management is to implement financial reports which show the true and fair view of the company affairs and which are prepared in accordance with the requirements of financial reporting framework. Frankwood, (2009) asserts that the purpose of management reporting is to inform the users of current affairs in the management, of financial information as well as sources of funds and utilization of funds within a given period of time so as to assess them in making the informed economic decisions Thomas, (2008). It is evident that financial statements have not been successfully in providing users with information which could shield them significant financial losses due to company collapse Sangestar, (2009). Financial profession has been in intense scrutiny by the regulators, investors and the general public with the profession; the regulators both global and local have taken significant measure in order to make financial statement more relevant, reliable and timely to the users Allan, (2009). While additional guidance and disclosure is often beneficial to the preparation and understanding the elements within the company’s financial statements, the current state of corporate reporting has become too long, detailed and extremely difficult as preparer’s purpose to comply with increasing demands of regulatory framework.

1.1 Objectives of the study

The objective of the study was to determine the factors affecting the implementation of financial statements at Nairobi Securities Exchange (NSE) in Kenya.

1.2. Research Hypothesis

2. Theoretical Framework

Factor affecting financial statement implementation can be explained by different theories. There are several theories done by scholars in the fields of banking and finance, but the study focused its discussions on three financial theories in relation to the financial factors affecting preparation of financial statements of listed banks. Namely: institutional Theory, agency theory and the Stakeholder theory.

2.1 Agency theory

Agency theory indicates that top management may have incentives to use financial statements information to reduce disclosure requirements. According to Jensen and Melling (2000). In the company setting the shareholders are the principals who are the owners of the resources while the management is the agent to whom the responsibility of controlling the resources has been delegated. It is important for the managers to give accountability on how they have carried out their stewardship responsibility. These calls for need to communicate to shareholders in a clear, precise, and simpler manner in which the shareholders may not be competent in technical language of business can understand.
2.2 Institutional Theory

This theory states that the institutional environment can highly impact the growth of formal structures in an organization, often more strongly than market pressures. Innovative structures that build up technical efficiency in early-adopting organizations are justified in the environment. Eventually, these innovations attain a level of legitimization where they become legal mandates. At this point organizations both new and existing will implement the structural form including schemes, rules, norms, and routines even if the firm does not improve efficiency (Scott 1995).

2.1.3 Stakeholder Theory

This theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) suggests that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Murtha and Lenway (2004) suggest that states are able to influence management because they control authority, markets, and property rights which are the main strategic resources by their involvement in the appointment of a firm’s top management as well as board members and providing direct or indirect government subsidies and incentives. States involvement in the markets can negatively affect the degrees of openness (free market) or control (closed market). This influence can also manifest itself through property rights in countries where the government has undue powers in regard to property ownership (Murtha, 2004).

Conceptual Framework

Independent variables

Factors

ADOPTION OF IFRSs
REGULATORS
FINANCIAL PERSONNEL

Financial statements implementation

- Statement of Financial Position
- Comprehensive Income statement

3. Methodology

3.1. Research Design.

The study intends to collect information from respondents on their attitudes and opinions on determinants of financial statements preparation; therefore, a descriptive research design method was used. This was most suitable because it involves collecting information from the people on their habits, opinions, attitudes and any other educational or social issues (Ayuma, 2015).

3.2. Sample and sample size

For the purpose of getting a representative sample, the study employed census method to determine the study sample. A census is a study of every unit, everyone or everything, in a population. It is known as a complete enumeration, which means a complete count. A census provides a true measure of the population, benchmark data may be obtained for future studies and detailed information about small sub-groups within the population is more likely to be available. Since the population of the study was small (169), census was used to collect information from the entire population (Kothari, 2004).

4.3. Sampling procedures

A purposive sample from Chief Executive Officers (CEOs), Chief Financial Officers (CFOs) and middle level management of 10 banks listed on the NSE was used to give an all-inclusive opinion. The sample frame was drawn from the list of public banks listed on the NSE website as at 2015. Most of the companies have headquarters in Nairobi hence this justified the study’s scope.

3.5. Data collection methods

The primary was collected by means of questionnaire directed to the implementors of financial reports. The questionnaire was administered personally to minimize non-response. The questionnaire had two sections section A include general profile of the respondents while section B included both open and closed questions which was based on five point likert scale. According to kline (1999) a rule of thumb in using...
Cronbach’s alpha indicates that a coefficient of between 70% and 80% is accepted. The researcher therefore concludes that data collected using questionnaire was suitable based on the above result (Kline, 1999).

3.6. Data analysis and presentation

Data collected from the respondents was processed using the data processing operations which included editing to ensure accuracy and consistence coding in order to put data into groups on basis of common characteristics and finally tabulated in order to summarize and arrange the data in concise and logical order Bailey (2010). Descriptive statistics was used to compute certain indices or measures along with search for patterns or relationships that existed among the data groups. Prior to testing the hypothesis, the mult-item scale was evaluated using exploratory confirmatory techniques to assess reliability, dimensionality and validity to assess the reliability of measures Cronbach ‘s alpha and items-to-be total correlation for all scales was carried out to establish association between independent variables and dependent variables further more multiple regression and moderated regression was carried out using predefined models containing independent and dependent variables as shown below. The processed regression models are as follow:

\[(Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon)\]

Where

- Independent variables
- \(Y\) implementation of financial statements
- \(\alpha\) constant term
- \(\beta\) =Beta coefficient
- \(X_1\) = Adoption of IFRSs
- \(X_2\) = Regulators
- \(X_3\) = Competence of financial personnel
- \(\varepsilon\) = Error term

4. Discussion

The study depicts that most of the respondents agree that the constructs of financial statements implementation; adoption of IFRSs, regulators and skills of the preparer. Significantly affect the financial statements preparation. The factor which is considered to have most effect is adoption of IFRSs.

5. Conclusion and Recommendations

The study concluded that adoption of IFRSs has led to understandability of financial reports; adoption of IFRS makes financial reports to more complete more over the implementation costs of IFRSs are too high and lastly IFRSs are so difficult and complex to implement. The following recommendations are forthcoming. Management of financial institutions should ensure transparency of financial information which is a key concept in accountability for good corporate governance. They should also ensure effective adoption of IFRSs which are seen as eye through which stakeholders can see the acts of management and be able to assess their accountability for organization affairs, On the competence of the regulators financial institutions should ensure that their financial statements to be detailed enough to help users in analyzing and evaluating the results of a company’s performance as well as financial position so as to make informed economic decision, on other hand they need to be as simple as possible so that users can be able to understand them in order to rely on them for their decisions and Lastly accountants, it is important that financial institutions ensure that their accountants continuously update their knowledge in line with current developments in business environment.

6. References

acountancy quality journal of accountancy research.


