©NIJCRHSS Publications
Open Access
ISSN: 2992-5789

NEWPORT INTERNATIONAL JOURNAL OF CURRENT RESEARCH IN HUMANITIES AND SOCIAL SCIENCES (NIJCRHSS)
Volume 3 Issue 3 2023

https://doi.org/10.59298/NIJCRHSS/2023/10.1.1100

Impact of Financial Reporting on the Financial Performance of Agricultural Firms at the Nairobi Securities Exchange

[1]Barrack Ouma and [2]David Nyambane

[1]Business & Economics Zetech University, Kenya
[2]Faculty of Business and Management Kampala International University, Uganda
Email: david.ongabi@kiu.ac.ug; barrack.ouma@zetech.ac.ke

ABSTRACT
The study examined the impact of accounting information on the financial performance of agricultural firms listed on the Nairobi Securities Exchange (NSE). A descriptive study design was used, with primary data collected through questionnaires. Quantitative analysis was conducted using SPSS V24 for both descriptive and inferential statistics. The results showed a significant correlation between financial reporting disclosures and the financial performance of agricultural firms listed on the NSE. The study concluded that efficient and timely financial reporting disclosures significantly influence the financial performance of agricultural firms listed on the NSE. The recommendation is for agricultural firms to prioritize efficient and timely disclosure of information to their stakeholders to improve their financial performance.
Keywords: Financial Reporting, Financial Performance, Accounting Information, Agricultural Firms and Nairobi Securities Exchange (NSE)

INTRODUCTION
Financial reporting by companies is affected via the preparation and publication of financial statements. These financial statements are required to exhibit certain degree of quality in terms of their information contents [1]. [2], opined that accounting information contained in the financial reports should possess certain qualities as relevance, verifiability, understandability, neutrality, timeliness, comparability, and completeness. When the financial reports disclose quality accounting information, the decision of the users (investors, management, government, employees, creditors, analysts) of the reports could as well be qualitative and informed. The users of the financial reports use the reports frequently in passing judgments on the viability of a company. Investors in many cases are too dependent on the quality of accounting disclosure. However, the quality of information disclosure in the financial reports of companies has been an area of debate by both accounting theoreticians and those in practice [3]. In USA, the listing of firms enhances the financial information provided to users. However, it is still possible for listed firms to provide information that misguides the investment decisions of users. A case in point is the Parmalat, Enron and World Com Scandal in USA. In the case of World Com, the risks on account receivables were always understated by providing for very low provision for doubtful debts. This is a clear case of lack of truthfulness in the accounting information. A local case is Uchumi Supermarkets where despite the disclosure of the liquidity and cash flow reports, investors still went ahead and invested in acquiring Uchumi shares which later collapsed [4]. The use of accounting information is illustrated by the following examples; the offer by Kraft Foods in February 2010 to acquire Cadbury was based on a detailed financial analysis of the firm's financial conditions and its future prospects. Cadbury was the world's second largest producer of confectionary goods (candy and other goodies) until its acquisition. The offer from Kraft Foods to purchase Cadbury was an amount equal to 28.9 times the earnings of Cadbury.

According to the Cadbury Annual report and Accounts the earnings used in the merger was 24.8 pence per outstanding share. In terms of U.S. dollars, the offer was valued at $6.93, which was a fraction of the prevailing Kraft stock price of $26.78. The offer made by Kraft Foods for Cadbury included the existing value of Cadbury plus a premium based upon the anticipated synergies created by combining the two firms. The comments were that, the offer may have been good or bad, but time would tell. Australian farming organizations have been at the forefront of using financial information to make investment decisions. The use of physical and financial performance indicators and benchmarking for the financial analysis of farming businesses is a widespread practice in Australian agriculture, though its use has fluctuated over the years. Extensive use of such financial analysis tools is currently evident in the farming sector, mainly by professional farm business consultants and rural accounting firms, however it is also evident there are a multiplicity and diversity of methods and indicators used. The use of performance indicators and associated benchmarks in the financial analysis of farm businesses is a beneficial tool for assisting effective decision making aimed at improving business performance [5].

In Brazil, accounting information represents an important predictor of a company's future cash flow and serves to assess the risk of stock investments. Because such information reflects the economic and financial reality of a company during a given period, this information relates to the systematic risk of an investment, which justifies the use of the information for decisions related to the composition of a stock portfolio [6]. In Romania, the accounting regulations in force stipulate that all legal persons who apply the International Financial Reporting Standards (IFRS) must prepare and submit annual financial statements. In agriculture, the content of the annual financial statements reflects the main financial flows resulting from the applied agricultural practices and the obtained performance. In addition to allowing to permanently monitor and control the activities taking place within the agricultural unit, they are also a source of information for various beneficiaries (shareholders, creditors, investors, employees, managers, fiscal bodies), to whom they provide coherent, relevant, reliable and comparable information, necessary to support economic decisions and to assess the management of agricultural holdings at national level [7]. [8] examined the dualistic relationship between leverage and firm performance for the U.S. banking industry, using a parametric measure of profit efficiency as an indicator to measure agency costs. They confirmed the agency cost theory: higher leverage is associated with better firm performance. [9] considered a similar relationship for a sample of New Zealand small and medium sized enterprises using distance functions as a measure of firm performance, and also found support for the agency cost theory.

Statement of the Problem

Preparing agricultural financial statements is a process that requires decisions about what items to include, how and when to include them, and how to value them [10]. These decisions can greatly affect the financial picture that emerges from an analysis of financial measures and ratios derived from a set of farm financial statements. Good decisions made during this process lead to more complete financial information and more accurate financial measures [7]. According to [3], investors in many cases are too dependent on the quality of accounting disclosure. However, the quality of information disclosure in the financial reports of companies has been an area of debate by both accounting theoreticians and those in practice. This implies that from a global perspective, existing studies on effect of accounting information on the performance of agricultural firms are rare and inconclusive. Locally, several studies including [11] investigated the factors affecting the financial performance of listed companies at the Nairobi securities exchange in Kenya and concluded that leverage had a significant negative effect on financial performance while liquidity and company size and age of firm had a significant positive effect on financial performance. Empirical evidence indicates that firm performance can be affected by the aforementioned variables however literature indicates mixed and often conflict results on the effect of these variables on firm performance. While other studies indicate a positive affect others indicate a negative effect and even others show no effect at all [12]. These mixed findings and inconclusiveness of findings on the factors affecting firm performance presents policy makers as well as management of firms with a challenge in formulating policies aimed at improving firm performance. Thus, they have often been in some cases been forced to rely on theory as well as professional instincts on what factors affect firm performance. However, such approach could be misleading and thus less optimal measures eventually fail to be put in place [13]. Further approaches used in empirical literature have shown a diverse approach with which firm performance can be analyzed. Some studies have looked at non-financial performance measures while others have adopted the financial measures metric in their examination of firm performance. These different approaches used can thus be attributed to the mixed findings in empirical research. However, the studies failed to focus on the effect of financial reporting disclosures on the financial performance of agricultural firms listedon the Nairobi Securities Exchange. It is due to this research gaps that the study established the effect of financial reporting disclosures on the financial performance of agricultural firms listed at Nairobi securities exchange.

Research Objective of the Study

To establish the effect of financial reporting disclosures on the financial performance of agricultural firms listed at the Nairobi securities exchange.

Research Hypothesis of the Study

H_{01}: Financial reporting disclosure has no significant influence on financial performance of agricultural firms listed at NSE.

Significance of the Study

This study will be of importance to the following stakeholders: Policy makers and analysts, investors, executives and managers, employees, creditors, government and regulatory authorities, shareholders, competitors, financial reporters, and scholars. Policy makers need information on the various ways to analyze the financial statements and their importance for planning, bench marking and drawing comparisons. The government and other regulatory authorities need information to ensure that companies are complying with regulations set at all levels, determine the levels of taxes and that the public is accurately informed about the financial position at all times. The study will be useful to the investors since they need information to make informed investment decision upon analysis of the various financial statements.

Scope of the Study

The study was conducted within the Kenyan Stock market which is a member of the East African Stock Exchange Association (EASEA). The study investigated the effect of financial reporting disclosures on financial performance of Agricultural firms listedat Nairobi Securities Exchange.

METHODOLOGY

Research Design

This study employed descriptive research design. Descriptive design is because it focused on complex analysis to bring out the correlation of variables. This is consistentwith [1] who explains that a descriptive design is described as a method of collecting information by interviewing or administering a questionnaire toa sample of individuals and is appropriate as it answers research questions who, what,where, when and how is the problem.

Target Population

According to [14], a population is the total collection of elements about which the researcher wish to make some inferences. In this study the population comprised of employees of agricultural firms listed at Nairobi Securities Exchange in Kenya. The target population of this study comprised of 7 units of analysis which are the listed agricultural firms from which the target and accessible population was drawn from. The study population which represents unit of observation comprised of management employees in the 7 listed Agricultural companies.

Data Collection Methods

Data collection refers to the process of gathering raw and unprocessed information that can be processed into meaningful information, following the scientific process of data analysis [15]. The study utilized primary data.

Primary Data

The primary data was collected using semi-structured questionnaire which comprised of both open and closed ended questions.

Data Collection Procedure

The primary data was collected using questionnaires that were delivered to the seven agricultural firms by the researcher.

Descriptive Analysis

Descriptive Statistics was used in transforming the raw data into a form that can be easily understood and interpreted. According to [16], descriptive statistics is a method of presenting data quantitatively and describing it in a manageable form.

Hypothesis Testing

This section presents the approach that will be adopted in the study to test the five objectives. Table 1 below shows how the various hypotheses will be attained.

Table 1: Hypothesis Testing

Hypotheses	Regression Model
Hypothesis 1	$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ Where: Y= Financial performance.
Hypotheses	Regression Model
H01: Financial reporting disclosure has no significant influence on financial performance of agricultural firms listed at NSE	β_0= intercept β_1 = Coefficient for X_1 X_1= financial reporting disclosure ε = Error term

RESULTS AND DISCUSSION

Data Analysis and presentation

Descriptive Statistics

The questionnaire is designed according to the Fifth Likert scale, so that (1) means strongly Disagree, (2) means Disagree, (3) means neutral, (4) means Agree, (5) meansstrongly Agree. The computational average of the responses of the search sample individuals to the questionnaire items was also used for the purpose of knowing the opinions and trends of the search sample individuals. The length of the field is calculated and is the quotient of the number of distances (equal to 4) over the numberof selections (equal to 5), hence the length of the field = 4/5 = 0.80.

Table 2

Level of Approval	Strongly Disagree	Disagree	Neutral	Agree Strongly	Agree
Field	5-4.2	4.19-3.40	3.39-2.60	2.59-1.80	1.79-1

The overall average sample responses to the questionnaire were as shown:

Table 3

SUMMARY	Sum	Average	Variance
Positive impact on the firm performance	174	4.142857143	0.515679443
Standard disclosue formats	173	4.119047619	0.546457607
Financial information has footnotes	183	4.357142857	0.430313589
The font of the financial report	187	4.452380952	0.351335656
Relevant information	187	4.452380952	0.400116144

Regression Model

Financial reporting disclosure has no significant influence on financial performance of agricultural firms listed at NSE. Hypotheses were tested using t-test tests, in order to find out what there was a statistically significant relationship between the dependent variable and theindependent variable. After the data was entered into the statistical SPSS program, thefollowing results were reached.

Table 4 Regression Analysis

Model		Unstandardized Coefficients	Standardized Coefficients Beta	CoefficientsB t	Std. Error
1	(Constant)	1.659	.283		5.450
	Average	.005	.181	.004	.029

The result of the regression analysis of the association between the financial reporting disclosures and financial performance are shown in the section above. The table shows the coefficients of the model. The model has a constant of 1.659 of while thecoefficient for financial reporting disclosures standardized betas of 0.004. The standardized coefficients of beta was used to identify the relationship between financial reporting disclosures and financial performance.

$$Y = 1.659 + 0.004X + \varepsilon$$

CONCLUSION AND RECOMMENDATION

This study investigated the relationship between financial reporting disclosures and financial performance of Agricultural firms listed at the Nairobi Securities Exchange.The results showed that financial reporting disclosures have a significant effect on financial performance of Agricultural firms listed at the Nairobi Securities Exchange.The study concludes that financial reporting disclosures have significant influence on financial performance of Agricultural firms listed at the NSE. Therefore, the study recommended that the Agricultural firms should disclose information efficiently and timely to their stakeholders in order to improve their financial performance

Suggestions for further Research

The scope of the study can be expanded to include other attributes of disclosures eg Auditor Reputation, dividend and earnings per share. Scholars should also be able to examine what effects these attributes would have on the financial performance of Agricultural listed firms in Nairobi Securities Exchange.

REFERENCES

1. Olusola, A. J., Olugbenga, O. M., Zacchaeus, S. A., & Oluwagbemiga, O. E. (2013). Effect of Accounting Information on Investment in Nigerian Poultry Agricultural Sector. *Research Journal of Finance and Accounting*, *4*(19), 124-132.
2. Maines, L. & Wahlen, J. (2003). The nature of accounting information reliability: inferences from archival and experimental research. *Accounting Horizons*, Vol.20 (4), pp.399-425.
3. Ghofar, A. & Saraswati, E. (2008). *Problems in financial reporting: the analysis of quality of disclosure and the measurement system of the traditional accounting.* Retrieved from http://www.indonesiauniversity.edu.in/
4. Omboi, B.M. (2011). Reasons for Low Listing by Agricultural Companies in the Bourse: A Case Study of DelMonte Limited Kenya. *Research Journal of Finance and Accounting*, Vol. 2(3), pp.57-60
5. Wilson, R. H., Charry, A. A & Kemp, D.R (2005). Performance indicators and benchmarking in Australian agriculture: synthesis and perspectives. *ExtensionFarming Systems.* Vol.1 (1).
6. Amorim, A., Lima, I., & Murcia, F. (2012). Análise da relação entre as informações contábeis e o risco sistemático no mercado brasileiro. Revista de Contabilidade e Finanças, 23(60), 199-211.
7. Feleagă N. (2006). *Accounting in Romania at the Convergence Time with European Directives and International Referential*, Theoretical and Applied Economics,Vol. 4(499) pp. 89-114.
8. Berger, A. N., & Di Patti, E. B. (2006). Capital structure and firm performance: A newapproach to testing agency theory and an application to the banking industry. *Journal of Banking & Finance*, *30*(4), 1065-1102.
9. Margaritis, D., & Psillaki, M. (2007). Capital structure and firm efficiency. *Journal ofBusiness Finance & Accounting*, *34*(9-10), 1447-1469.
10. McKee, G. (2008). The Financial Performance of India Grain Marketing and FarmSupply Cooperatives. *Journal of Cooperatives*, Vol. 21, pp. 15-34.
11. Omondi, M. M., & Muturi, W. (2013). Factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya. *Research Journal of Finance and Accounting*, *4*(15), 99-104.
12. Vijayakumar, A. (2011) Cash Conversion Cycle and Corporate Profitability—An Empirical Enquiry in Indian Automobile Firms. International Journal of Research in Commerce, IT & Management, 1, 84-91.
13. Eljelly, A. M. (2004). Liquidity-profitability tradeoff: an empirical investigation in an emerging market. *International Journal of Commerce and Management*, *14*(2),48-61.
14. Cooper, D. R., & Schindler, P. S. (2007). *Business Research Methods.* 9th Ed. New Delhi, India: McGraw-Hill Publishing, Co. Ltd.
15. Gall, M. D., Gall, J. P., & Borg, W. R. (2007). *Educational research: An introduction.* Boston, MA: Pearson Education
16. Adejimi, A., Oyediran, O. S., & Ogunsanmi, E. B. (2010). Employing Qualitatively Enriched Semi Structured Questionnaire in Evaluating ICT Impact on Nigerian 'Construction Chain Integration'. *The Built & Human Environment Review*, 3(1), 49-62.

CITE AS: Barrack Ouma and David Nyambane (2023). Impact of Financial Reporting on the Financial Performance of Agricultural Firms at the Nairobi Securities Exchange. NEWPORT INTERNATIONAL JOURNAL OF CURRENT RESEARCH IN HUMANITIES AND SOCIAL SCIENCES 3(3):1-6.
https://doi.org/10.59298/NIJCRHSS/2023/10.1.1100