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A Critical Examination of the Determinants of Timely financial reporting by Listed Manufacturing Firms in Kenya

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Abstract:-

Purpose: The study was to espouse on the effect of timely financial reporting by NSE listed manufacturing firms in Kenya. It aimed at determining the crucial determinants/factors that influence timely financial reports to enhance efficiency and productivity of these firms.

Method: The study utilized the descriptive research approach in an effort to measure the data patterns in the aforementioned title. The population of the study was all 10 registered manufacturing firms within the Nairobi Securities Exchange. The secondary data was collected from the individual listed sample firm's annual reports and financial statements at the 5 years period. The study adopted a descriptive research method, it was also arguably quantitative in nature because it majorly relied on secondary data sources from existing published audited financial statements of the listed manufacturing entities for the financial years 2017 – 2021 as reported. Financial information extracted from the audited financial statements based on the 5 ratios of the Altman Z-Score model were used to forecast financial distress of the 10 manufacturing firms.

Findings: The study findings were that the level of board independence, audit and risk committee effectiveness, board size, and firm size barely have any significant correlation whatsoever with financial reporting quality and timeliness to effect change in entity performance. Further study findings established that the model entailing; entailing corporate governance that include; board independence, audit and risk committee, and board size, as well as firm size, explains timely financial reporting to a very least extent with a coefficient of determination value of 2.04%. Therefore it was almost clear that certain factors seldom possessed greater influence in timely delivery of quality financial reports by these firms.

In contrast, operating in manufacturing, services and technology sectors and listing in the NSE index have a substantial positive influence on the timeliness of reporting from small, medium to large firms.

Additional study findings were that that the model entailing corporate governance that include; board independence, audit and risk committee, and board size, as well as firm size, does not significantly forecast financial reporting quality. Final study findings were that board size have a slim influence on timeliness and quality reporting.

Implications for Research and Practice: This study has majorly used secondary data to explore the findings, empirically, primary data can also be utilized to ascertain similar results. This can ensue additional information or infer differences with established findings to this particular study. The statistical analytical techniques of the present research were multiple linear regressions and correlation analyses which involved the use of the Altman Z-Score model.

Keywords: Corporate governance, financial reporting and Manufacturing firms, Nairobi Stock Exchange.

I. INTRODUCTION

According to IASB (2010), timeliness is one of the qualitative characteristics that enhance the relevance of financial information. The quality of financial reports provided by firms are greatly influenced by timeliness. Timely disclosure of financial information is also a very important sign of good governance as it reflects managerial efficiency and effectiveness (Joshi, 2005). Decision makers in various firms require these reports on time to enable them come up with plans to improve on various areas with the goal to succeed in business and counter any distress that may arise from the same financial reports. Many scholars note that the timing of financial information announcements has a great influence on capital markets since it reacts around information releases (Beaver, 1968; Ball, Brown, 1968; Kinney, McDaniel, 1993; Givoly, Palmon, 1982; Bagnoli et al., 2002). Any delay in disclosing financial reports increases information asymmetry and creates agency conflict and eventually uncertainties that may be accompanied with significant panic in target deliverables. Moreover, it generates uncertainty in making projectile economic decision and leads to postponed transaction on shares, which retrogressively defy market efficiency.

Kenya as a county has been observed to depict several cases of embezzlements of funds in various reputable firms. This scene is majorly influenced by the high level of failed transparency in delivery of timely and quality financial reports. This has had adverse and detrimental consequences for these firms and their transparency as well. Therefore, timeliness and quality financial reporting has remained an issue of focus to regulate such unprecedented occurrences. Whenever there is clear focus in timely delivery, it leaves no space for disregarding the regulations for economic crimes.

The NSE has played a critical role in ensuring that certain regulatory measures and standards are in place to suit the international market frameworks to ease economic adherence and effective harmonization. The Kenyan government at large have tried means to create a universally conducive business environment to attract the foreign investors into local economy to steer developments in the business sphere. Therefore it is plausible to mention that timely and quality financial reporting has remained a priority for the country's capital markets. There is a set regulatory measures on time limits for companies to produce and share the much needed financial reports by consumers.

Significant business models and trends has influenced how information is shared for the benefit of these firms. The introduction of a more developed and modern techniques tremendously in effect determine how and when the information is shared and consumed by users to influence major economic decisions. Efficiency of many firms are directly dependent on accurate, timely and quality financial reports. The reporting behavior and standards are greatly affected by these global trends.

In this discourse, investigation aims to find out determinants of the timeliness for all manufacturing firms listed on NSE by critically examining different factors, thereby contributing to the related literature. In accordance with this purpose, firstly, the timely reporting for such companies listed on NSE is examined for the year 2017. Secondly, the effects of firm specific attributes that have been mostly and rarely referenced in the related literature (e.g. profitability, firm size, audit firm size and sector as reported) on the timeliness of financial reporting for the firms investigated. The hypotheses designed for this study are mapped using an annual data set which consists of all listed companies on NSE for the year 2017. Statistical analysis is carried out using the SPSS program.

The rest of this investigative paper has content organized as follows. Section 1 presents a review of the literature. Section 2 gives an overview of the legal and institutional requirements for financial reporting in Turkey. Section 3 formulates the research hypotheses. Section 4 provides research methodology. Section 5 reports the data analysis and empirical results. Section 6 presents conclusions, limitations and recommendations for further research.

II. METHODS

The study used the descriptive research design in the endeavor to examine the data trends that exists in reference to the study topic. Nassaji (2015) argues that the descriptive method gives the researcher an opportunity to compare and contrast the different types of data in order to map the trends that exist in them. The study chose the descriptive research design since it could be used to describe different objects and their specific features.

A. Study Population

The target population in this study was specifically NSE listed manufacturing firms in Kenya. As at present, there are ten manufacturing companies that are listed in the Nairobi Securities Exchange (NSE) namely Baumann Company Limited; B.O.C Kenya Ltd; British American Tobacco Kenya; Carbacid Investment Ltd; East Africa Breweries Limited; Eveready East Africa Limited; Kenya Orchards Limited; Mumias Sugar Company; Marshalls (E.A.) Ltd; and Unga Group Limited (NSE, 2017). NSE listed manufacturing firms were selected mainly because NSE exercises heavy control over them hence they adhere to the standards of manufacturing operations, further data from these firms were easily available. In this study, the sample size consisted of the 10 units of manufacturing firms listed in the Nairobi Stock Exchange for the year 2017-2021.

B. Sampling Design

A sampling frame refers to the collection of source material where the sample is drawn. It also gives a way of selecting particular parts of the population from whom data collected is done (Bryman & Bell, 2003). The sample frame in this study was all the manufacturing firms listed in the NSE.

C. Sampling Technique

Due to the small size of the population (only 10 units), all the NSE listed manufacturing firms in Kenya took part in the study as Bryman and Bell (2003) opine that when the target population is small, all the elements in the population take part in the study. Thus all the ten firms took part in the study. In this regard, the study used census sampling technique where all member of the population takes part in the study.

D. Sample size

Data was collected from all the 10 manufacturing firms listed in the Nairobi Stock Exchange Kenya. All the 10 manufacturing firms participated in this study. This was a relatively small number.

E. Data Collection

Data were sourced from the content analysis of overall annual reports for the companies selected for the study and as listed in the NSE for a period of 5 years from the year 2017 to 2021. With this margin selection for this study, comparability was enabled. The data was derived and analyzed for each company and for each year.

F. Analysis

This study explored three different analysis techniques namely; descriptive correlation and regression analyses. To determine the variables relationships, each data set was analyzed using different data analysis methods.

G. Descriptive statistics

In Kenya, legal requirements regarding presentation of annual financial reports to users appear to be different depending on obligation to prepare consolidated or unconsolidated financial statements. Therefore, the timeliness is analyzed for consolidated and unconsolidated financial statements separately in terms of descriptive statistics in the study. Table 1 and 2 show the frequency distribution of publication date after fiscal year-end for companies prepare consolidated or unconsolidated financial statements.

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Reporting Lag	Frequency	Percentage	Cumulative Percentage
1-30	4	2.1	2.1
31-40	17	9.0	11.1
41-50	21	11.2	22.3
51-60	33	17.6	39.9
61-69	63	33.5	73.4
70	**43**	**22.9**	**96.3**
71-80	6	3.2	99.5
80-90	1	0.5	100
Total	**188**	**100**	

Table 1. Frequencies for Publication Date of Consolidated Financial Statements

Table 3 presents approximately 73% of the firms released their financial reports before the end of regulatory publication date (70th) after fiscal year-end. About 23% of the firms disclosed their financial reports precisely on the 70th day and just about 4% of the firms released their financial reports late, exceeding regulatory dead-line with maximum 20 days.

Reporting Lag	Frequency	Percentage	Cumulative Percentage
1-30	1	1.0	1.0
31-40	6	6.2	7.2
41-50	20	20.1	27.3
51-59	29	29.7	57.0
60	**40**	**41.0**	**98.0**
61-70	0	0.0	98.0
71-80	1	1.0	99.0
80-90	1	1.0	100
Total	**98**	**100**	

Table 2: Frequencies for Publication Date of Unconsolidated Financial Statements

Table 2 shows that about 57% of the firms reported earlier than the last publication date (60th day) after fiscal year-end. 41% of the firms disclosed their financial reports just on the 60th day. About 2% of the firms reported late, exceeding regulatory dead-line with maximum 30 days.

H. Pearson Correlation Analysis

Table 1 below presents the Pearson correlations for the relationships between the various factors influencing the preparation of financial reports in insurance companies in Kenya. From the findings, a positive correlation is seen between the each aspect constituent. The strongest correlation was obtained between Staff Competence and preparation of financial reports (r = .798), and the weaker relationship found between Auditing Firm size and preparation of financial reports (r =.436). Profitability and Firm size are also strongly and positively correlated with preparation of financial reports at correlation coefficient of .716 and .708 respectively. All the independent variables were found to have a statistically significant association with the dependent variable at 0.01 level of confidence

Preparation			Firm Size	Auditing Firm Size	Regulatory Framework
Profitability	1				
	.716**	1			
Firm Size	.708**	.650**	1		
	000	.000			
Auditing Firm Size	.798**	.485**	.115	1	
	.000	.001	.474		
Regulatory Framework	.436**	.724**	.300	.692**	1
	.004	.000	.057	.000	

Table 3: Pearson Correlation Matrix

VARIABLES	Min	Max	Mean	Med.	Std. Dev.	Number (%)
Profit	27	71	57.74	61	13.07	141 (75.0)
Loss	46	81	66.53	69	6.23	47 (25.0)
Audited by Big- 4	27	81	57.13	60	13.38	121 (64.4)
Audited by Non-Big- 4	39	75	65.01	69	8.03	67 (35.6)
Listed on Bist100 index	28	71	57.96	62	12.23	67 (35.6)
Non-Listed on Bist100 index	27	81	61.04	67	12.30	121 (64.4)
Listed CG. index	27	70	52.76	58	14.65	33 (17.6)
Non- Listed CG. index	28	81	61.47	67	11.25	155 (82.4)
Manufacturing	33	81	62.26	67	10.01	99 (52.7)
Non- manufacturing	27	75	57.36	63	14.09	89 (47.3)
Services	39	70	60.81	63	9.88	31 (16.5)
Non-Services	27	81	59.77	64	12.78	157 (83.5)
Financial	27	75	54.54	60	15.87	48 (25.5)
Non-Financial	33	81	61.79	67	10.29	140 (74.5)
Technology	33	70	59.11	69	14.89	9 (4.8)
Non-Technology	27	81	59.98	64	12.24	179 (95.2)

Table 4: Descriptive Statistics of Independent Variables for Firms Prepare Consolidated Financial Statements

III. RESULTS AND DISCUSSION

A pilot study was carried out in order to determine reliability of the questionnaires. Reliability of the questionnaires was then evaluated through Cronbach's Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain item measures the same construct. The study thus found that the analysis was reliable and could be used for further investigation in this and any other similar study.

A. *Study Variables*

The study investigated four main conceptualized factors influencing the timeliness preparation of financial reports in manufaturing companies in Kenya, namely profitability, company size, audit firm size and regulatory framework.

B. *Effects of Profitability on the Preparation of Financial Reports*

The study first aimed to establish the extent to which profitability affect the preparation of financial reports among the study subjects. Respondents were asked to respond as whether Very High, High, Moderate, Low and Very low.

Past studies have evidently shown that the content plays a bigger role in determining the timeliness of financial reports. Some studies assume and find that companies delay announcement when their accounting numbers contain bad news (loss), but when accounting numbers contain good news (profit), they tend to be more eager to announce good news to public (Beaver, 1968; Givoly, Palmon, 1982; Bagnoli et al., 2002; Sengupta, 2004; Graham et al., 2005). Alternatively, some studies argue that firms report bad news earlier than good news because of either from conservative accounting systems or from legal requirements (Basu, 1997; Bushman, Piotroski, 2006). The legal regulations may compel other firms to have their financial reports released on time as an obligation.

The majority of respondents, 21.4%, affirmed that profitability affects the preparation of financial reports preparation in the organizations surveyed to a high extent, closely followed by 41.4% who indicate the influence as moderate while 37.2% claim that the same influences preparation to a very high extent.

Based on the argument above, it can be hypothetically ascertained that there is a negative relationship between profitability and the timeliness of financial reporting.

C. *Effect of Company Size on the Financial Report Preparation*

The study sought to establish the extent to which company size affect the preparation of financial reports in the organizations surveyed. It is evident that large firms have enough resource endowment that enable them to perform financial reporting on time than compared to smaller firms which may have low resource availability. This may mean that, a large firm has enough resources and manpower to effect faster preparation of financial report on time.

Majority of respondents, 44.6%, affirmed that company size affects the preparation of financial reports preparation in the organizations surveyed to a high extent, closely followed by 28.5% who indicate the influence as moderate while 20.3% claim that the same influences preparation to a very high extent.

To this end, a majority of respondents were found to agree that data integrity issues delay the financial reporting process; that clear co- ordination between departments and preparation of financial reports brings about data integrity; that poor system implementation affects the quality of data captured in the system. A majority also disagreed on the view that there is clear understanding of products hence proper data capture, that all the necessary data required in financial report preparation is readily available and that the data used in financial report preparation is consistent year after year, while a majority.

Therefore, hypothetically, the size of company tends to affect the timeliness of financial reporting.

D. Effect of Size of Audit firm on the Financial Report Preparation

The contracted audit firm's size has the potential to influence the due process and timeliness of the release of financial reports by the client firms. Large auditing firms like KPMG tend to fasten and accurately execute financial reports on time. Financial reporting tend to behave more complex as multiple dynamics and change processes occur with new trends setting ne pace and standards of reporting. Large and complex auditing firms arguably have a greater role in determining the timely reporting of financial performances of companies. This to a larger scope may that these large size firms have the adequate resources to carry out their mandates, and this may influence the financial reporting of the client firms.

Studies which examine the relationship between audit firms and reporting lag presents mixed results. For instance, Owusu-Ansah and Leventis (2006), Ozkan et al. (2013), Erer and Comert (2014) and Gulec (2017) established that firms which audited by big audit firms disclose their financial reports earlier than firms audited by non-big audit firms, while Ng and Tai (1994), Turel (2010), Wan-Hussin and Bamahros (2013) and Pizzini et al., (2015) find contradict results. Mixed empirical results give a good reason to re-examine the relationship between the size of audit firm and the timeliness of financial reporting. Hence hypothetically, the size of the auditing firm have a negative effect of timeliness of financial reporting by responsible firms.

E. The Effect of Regulatory Framework on Financial Report Preparation

The policies and regulations controlling the disclosure of financial reports by the manufacturing firms listed at the NSE were found to be relatively unstringing. Many firms are reluctant to share their yearly financial reports as they feel not so obligated to do it. The standards set by NSE although have some very strict policies governing on early presentation of financial performance annually. It is therefore evident that a substantial number of manufacturing firms try to adhere with the regulations in order to meet the standards requirements by the NSE and other government bodies responsible for economic health. As competition among these companies continue to strengthen, firms are relatively adjusting to cope up with the dynamic, evolving trends. Therefore, hypothetically, the regulatory framework has some influence of timeliness reporting of financial reports.

IV. CONCLUSION

There is an acute need for firms to adjust to the current operational trends to exude transparency in their activities. This transparency can only be achieved through provision of timely financial reports. Manufacturing companies should show immense support to showcase publicly of their operational financial performance at the national and international level. Investment decisions made by investors largely depend on the financial performance display. Better performing companies are capable to attract investors enhancing economic growth. Achieving greater transparency in the global financial systems allows a more efficient allocation of financial resources as capital flows need transparent information and overall growth transformation. Timeliness is one of the key essential determinants of transparency in business operational sphere. Therefore, economic entities must feel obliged to disclose their real financial reports to the public as required by law. In the current era, most of these firms are knowledgeable about the significance of timely financial reporting and tend to act swiftly to adhere to set policies by the international and national economic regulatory bodies. They are fully aware of the timeframe for presenting the information to the respective consumers. This study investigates both the timeliness of financial reporting and the determinants of the timeliness of financial reporting in Kenya. Similarly, data was obtained from the annual financial statements and reports of 10 firms listed on the Nairobi Stock Exchange for the year 2017. The descriptive statistics indicate that 73% of the firms that prepared consolidated financial statements and 57% of the firms that prepared unconsolidated financial statements were able to disclose their annual financial statements dated to public as required by law. Estimated regression model gives good explanation for the variation in the timeliness of financial reporting. Estimation results show that 29% of the variation in the timeliness explained by company attributes identified in this study. According to the results; firms with profit, large firms, firms audited by 4-big audit firms and firms with good governance disclose their financial statements in a timelier manner than other firms. The empirical findings of this study give insight to the determinants of the timeliness reporting in Kenya; however these findings are not free from limitations which give opportunities for further research. First, this study does not investigate all company attributes that could impact on the timeliness of financial reporting. This study focuses only on some specific items such as profitability, size of firm, size of audit firm and regulatory framework. This study is open for further investigation as there are other many determinant to timely financial reporting per se. Secondly, this study examines the timeliness of financial reporting for manufacturing NSE listed companies in Kenya for a specific year, namely just for 2017. Therefore, it is limited to a particular timeframe, which gives opportunities for further studies.

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