

Factors influencing the Adoption of Financial Reporting among Small and Medium-Sized Enterprises in Mogadishu -Somalia

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Abstract

In the latest years, financial reporting practice has become a significant part of any businesses financial reporting helps the management of reporting entities become more efficient, effective and accountable. Therefore, this study attempted to investigate factors influencing the adoption of financial reporting among small and medium-sized enterprises in Mogadishu. Also, the study linked the results to literature and presented some suggestions. One hundred and ninety (190) questionnaires were used in the study through business owners, managers, finance directors, and accountants to achieve the study's objectives. The data were analyzed using SPSS software version 20 for descriptive statistics and multiple regression to establish the relationship between independent and dependent variables. The study found that accounting professions and educational systems, legal systems, and culture significantly influenced the adoption of financial reporting among SMEs in Mogadishu. In addition, the study revealed that ownership structure had a low influence on the adoption of financial reporting among SMEs. Therefore, the study concluded that approached model was fit to estimate factors influencing the adoption of financial reporting among SMEs in Mogadishu.

Keywords: Accounting Professions and Educational Systems, Legal systems, Ownership Structure and Culture.

1.0 Introduction

Financial reporting aims are derived from the informational needs and demands of the users from an outsider. The key objective is to determine the influence of the economic activities and financial activities on the business's financial position and performance to help business decision-making entities. Therefore, the financial reporting should provide accurate financial information about the company, free from bias, allowing readers to make comparisons using standard criteria and benchmarks (Gilaninia, Chegini&Mohtasham, 2013).

It is about transmitting financial and non-financial data to different financial data users to assess economic resources and claims against a reporting entity's financial liquidity, profitability, and viability. Financial reporting is essential as covering the needs of different users such as owners/ shareholders, management, government, investors and creditors, customers and employees,

and competitors (Soyinka, Fagbayimu, Adegoroy&Ogunmola, 2017).

Financial reporting enables contracting parties to reduce information asymmetry problems and improprieties among both parties involved and is considered a crucial aspect for the dedication to increasing transparency and quality of financial reporting (Healy &Palepu, 2001). Further, argued that lack of an appropriate financial reporting system, the users of the information might make wrong decisions, resulting in adverse selection and causing a hazard to investors and creditors. It also creates disputes between contracting parties.

Numerous SMEs and even large enterprises exist along with a wide range of Somalia industries, which play a crucial role as drivers of sustainable developments and jobs. These businesses' contribution was projected as almost 90 per cent of the Nation's Gross National Product (the Republic of Somaliland, 2019; Meester, Uzelac& Elder, 2019).

Similarly, SMEs play a critical role in developed and developing countries. As shown in Shandong University of Technology China research, 60-80percent of the total job opportunities are produced only through the SME industry. In Europe, it accounted for 75 per cent. In Korea, SMEs represent 99 per cent of the country's jobs and 43 per cent of the country's exports (Rathnasiri, 2014). Moreover, the SME sector is of paramount significance for developing countries and contributes to economic developments in reducing poverty and unemployment problems. So, it might be argued that Somalia can economically benefit from SMEs by establishing and implementing accounting rules and regulations to enhance financial reporting practices.

However, developing and adopting a well-developed financial reporting system can help managers and owners of SMEs regulate their economic condition, success, and overall operations (Rathnasiri, 2014). Besides, financial reporting is a powerful tool for owners and managers of SMEs and is crucial in decreasing the information asymmetry problem.

However, with increased awareness and demand of external users' financial information in the industry, it is vital to investigate the critical factors influencing the adoption of financial reporting (AFR). Although these factors can be viewed in many ways (Padachi 2012; Okofo, Ali and Ahmed 2011; Muniandy and Ali 2012; Almujaed, Tahat, Omran and Dunne 2017; Tahat, Omran and AbuGhazaleh 2018); however, these studies were focused accounting development and environmental factors only. As a result, there are no documented results about the factors influencing AFR among SMEs.

Therefore, these factors can be referred to as the environment's factors, such as social, cultural, economic, legal, and political, in accounting (Muniandy & Ali 2012). Similarly, prior international accounting research identifies several factors: political and economic influences, legal systems, taxation, culture, religion, global factors, business ownership and organization, and the country's educational system (Akra, Ali &Marashdeh, 2009). Okofo, Ali, and Ahmed (2011) noted that financial reporting practices are significantly affected by institutional, political, legal, and other factors such as the economic and regulatory environment. Chand, Patel, & Day

(2008).Found other factors; nature ownership of the business, educational system, colonial inheritance, taxation system, the accounting profession, and social climate. Hassab, Amal, and Said (2003) further argued that the stock exchange and deregulation of national organizations are also affected by accounting development. Moreover, prior research findings related to this topic were based on accounting development and environmental factors and conducted in developed and developing countries (Ashraf and Ghan 2005, Hassab, Amal, and Said 2003, Al-Akra, Ali and Marashdeh 2008). Except few studies conducted in underdeveloped countries (Okofo, Ali and Ahmed 2011). Based on the previous discussions about the issue and problems, the study develops three research objectives

2.0 Literature Review

IFRS was developed to guide the financial reporting of SMEs and issued by the IASB. These standards are intended to use only those not accountable to the public to publish their financial statements for external users (Ploybut, 2012). For this reason, many SMEs in the world prepare financial reporting by adopting IFRS standards to fulfil their regulatory requirements. In addition, it was argued that the cash flow statement is critical for the SMEs' success and survivability; further, updated financial information could also have helped managers make effective decisions Financial reporting is also considered a requirement of financial institutions for a credit evaluation to determine businesses' credit risk and the cost of capital (Mosisa, 2011). Furthermore, SMEs' credit access positively correlates with accounting and financial reporting practices (Tesfaye, 2019). Availability of complete financial reports analogous amongst SME firms is an essential precondition for capital providers to evaluate and analyze SMEs' creditworthiness (Abeygunasekera & Fonseka, 2012). Moreover, careful accounting practices and management might help SMEs organize and implement their operational activities to accomplish their objectives and goals and the enterprises' long-term growth and success.

2.1.0 Factors Affecting Financial Reporting of SMEs in Mogadishu

Several researchers attempt to identify factors influencing the adoption of financial reporting (Cardona, 2014; Alia and Branson, 2011; Ali and Ahmed, 2011; Almujaed, Tahat, Omran and

Dunne, 2017). Numerous models have been developed to identify the factors; the remaining section will discuss the arguments of prior researchers.

2.1.1 Legal system and culture

The country's legal system has been described as a significant influence on accounting and financial systems (Muniandy & Ali, 2012). Many jurisdictions have a legal structure that depends on a few statute provisions, which are then interpreted by courts that supplement the laws by building up vast case law quantities. In the United Kingdom, a common law system has been developed and implemented and some other Anglo-Saxon countries; thus, the nature of accounting standards is influenced by the country's legal framework (Tanaka, 2013). Countries of code law usually have corporate law or business act, which sets down the basic rules for corporations which specifies financial reports and their format that must be issued (Doupnik and Perera, 2012). Besides, the effect of cultural values on financial reporting has been debating a long time and is attractive among researchers. However, cultural factors of a particular country(s) affect the practice of accounting and financial reporting (Naghshbandi, Ombati, Khosravi, 2016). Moreover, financial reporting is statistically affected by cultural dimensions (Tapang, Bessong and Effiong 2012; Skotarczyk, 2011).

2.1.2 Ownership structure

The accounting and reporting practices and disclosure requirements may change based on ownership. Enterprises in Somalia consist of sole proprietorships, partnerships, unlimited liability, and strategic alliances; these businesses' ownership types are dominated mainly by families. There are no publicly listed companies in Somalia. Hence, shareholders mostly own and manage their business, resulting in a lack of financial reporting practice and disclosure. Qawqzeh, Endut, and Rashid (2020) studied the effect of structural ownership on financial reporting practice and quality; the result showed that families' and directors' ownership positively impacted financial reporting.

Moreover, institutional ownership has a negative impact.

2.1.3 Accounting profession and education

Accounting professions are critical for the development and growth of accounting and

financial reporting in general. Moreover, the accounting profession is essential for advancing financial reporting, financial analysis, and audit practices (Muiz and Branson 2011; Almujaed, Tahat, Omran and Dunne 2017; Muniandy & Ali, 2012). However, in Somalia recently emerged accounting sole proprietorships, which engaged accounting practices such as record keeping and preparing financial statements to the owners. Nevertheless, there is no legally established accounting and auditing standard-setting body in Somalia. In 2019, there was a process between Somali professional accountants and the Somali Federal Government, which was intended to establish the Somali Institute Certified Public Accountants (SICPA) to regulate accounting practice as other countries.

2.2 Theoretical framework

The study aims to investigate factors influencing the adoption of financial reporting among SMEs. Therefore, some theories are typically used in financial reporting and decision-making research, such as stakeholder theory, agency theory, and decision-making theory. These theories explain the information needs of both financial and non-financial reports. However, the availability of valuable information for decision-making is commonly characterized as the reason for preparing financial statements. Decision usefulness is an approach for preparing financial reporting data that helps the different users' decision-making processes determine the nature and types of information.

This study is underpinned by decision usefulness theory. Kamala, Wingard, and Cronjé (2016) adopted this theory to study "users' corporate environmental information needs." The decision making theory also holds the view of users and focuses on reporting entities; as the case of agency theory and stakeholder theory, it recognizes the information needs of all non-financial stakeholders (IASB, 1989; FASB, 2010). However, several stakeholders in Somalia, including primary users (investors and creditors), may rely on improper sources of financial information, e.g., companies' brokers and staff. Moreover, they do not make informed judgments and decisions about financial activities due to information asymmetry since these enterprises do not publish general purpose financial statements. Thus, the decision usefulness theory is appropriate for this study against information asymmetry and the speculation problem.

2.3 Research Hypothesis

The study developed the following hypothesis to determine association among variables.

Hypothesis1: Legal system is likely to affect financial reporting of SMEs.

Hypothesis2: Culture is likely to affect financial reporting of SMEs.

Hypothesis3: Ownership structure is likely to affect financial reporting of SMEs.

Hypothesis4: Accounting profession and education is likely to affect financial reporting of SMEs.

3.0 Research Methodology

The study adopts a quantitative method; research data was gathered using the questionnaire survey, the quantitative data collection method is most appropriate for this study since the study is cause and effect as examining factors influencing SMEs' adoption of financial reporting in Mogadishu, moreover, the used descriptive and explanatory approaches. Establishing an accurate population is essential for every study to obtain reliable research objectives. Hence, this study was based on registered and membered SMEs with the Somali Chamber of Commerce and Industry (SCCI). The total population of the study was 370, which was

chosen from 74 companies, with seven respondents for each. Further, the study selected all companies that have than 15 employees, through this population, the study developed sample size of 190 and distributed to the business owners, managers, finance directors, and accountants. Moreover, most of these sectors are newcomers while others were working long period. Considering their seniorities and experiences, the study selected the following SMEs as research population: General trade, telecommunication, financial sector and industry.

4.0 Results and discussions

4.1.0 Descriptive Analysis

4.1.2 Demographic Analysis

This part of the study was discussed the demographic characteristics of participants. The target respondents of this study were the business owners, managers, finance directors, and accountants who work in the SMEs industry. Therefore, questions were asked about the gender, age, qualification, experience, current position and business industry to ensure their relevance about the subject matter and assure reliability and validity of the data collected.

Table 4.1 Gender

		Frequency	Percent	Valid Percent	Cumulative
Valid	Female	27	18.0	18.0	18.0
	Male	123	82.0	82.0	100.0
	Total	150	100.0	100.0	

According to the returned responses, 27 of the respondents, representing 18%, were female, while 123, representing 82%, were male. This indicates that most of the participants in the SME field are male and unbalanced in gender. The firms in this

sector employed more males rather than females. This may be inherited from the country's traditional culture.

Table 4.2 Age

		Frequency	Percent	Valid Percent	Cumulative
Valid	Under 30	72	48.0	48.0	48.0
	Above30 but below 40	63	42.0	42.0	90.0
	above 40	14	10.0	9.3	100.0
Total		150	100.0	100.0	

Table 4.2 presented that 72 of the respondents were less than 30 years, representing 48% of

respondents, 63 were above 30, but below 40 represented 42% %, while 15 were above 40 years,

representing 10%. These results showed that most participants were of the suitable work age.

Hence, the advantage is that the participants are relevant to providing reliable data.

Table 4.3 Educational Background

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School	7	4.7	4.7	4.7
	Diploma	10	6.6	6.6	11.3
	Bachelor	67	44.7	44.7	56
	Master	66	44	44	100
	Total	150	100.0	100.0	

In terms of qualification, the study found that most of the participants are at the level of bachelor's and master's degrees, representing 45.3% and 44%, respectively. In comparison, high school and

diploma represented 4.7% and 6.6%. This statistical result showed that SMEs firms recruited qualified personnel as bachelor and master holders scored 89%, as table 4.3 illustrated.

Table 4.4 Work Experience in Current Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 – 5 years	62	41.3	41.3	41.3
	5 – 10 years	57	38.0	38.0	79.3
	More than 10 years	30	20.7	20.0	100
	Total	150	100.0	100.0	

Table 4.4 presents the work experience of the participants. Regarding this table, the report showed that most of the participants were in the category of 0-5 years of experience, which represented 41.3%, followed by 5 – 10 years' experience, this represented 38%. In contrast, the number of

respondents with more than ten years of work experience was less statistically, showing 20.7%. This indicated that most participants were less than ten years in this field.

Table 4.5 current position in the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	33	22.0	22.0	22.0
	Manager	46	30.7	30.7	52.7
	Accountant	45	30.0	30.0	82.7
	Finance Director	26	17.3	17.3	100
	Total	150	100.0	100.0	

Regarding current positions of the respondents in organizations, the study found that the majority of the participants were managers and accountants, representing 30.7% and 30% respectively and followed by owners who represented 22% while finance directors were statistically less as represented 17%. This statistical result showed that SMEs firms recruited business managers to run business operations and accountants to record daily business transactions, enabling the preparation of yearly reports, as showed Table 4.5.

Table 4.6 business industries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	16	10.7	10.7	10.7
	Telecommunication	22	14.7	14.7	25.3
	Banking	30	20.0	20.0	45.3
	General trade	53	35.3	35.3	80.7
	Remittance	29	19.3	19.3	100.0
	Total	150	100.0	100.0	

Table 4.6 presented that most of the participants were from general trade, banking and remittance as the report showed 35.3%, 20% and 19.3%, respectively. At the same time, telecommunication and manufacturing were represented 14.7%, 10.7%, respectively.

4.2 Assessing Reliability of the Instrument

According to Hair (2011), concerning Alpha Cronbach, the reliability value greater than 0.90 is considered excellent, greater than 0.80 is fine, greater than 0.70 is adequate, greater than 0.60 is

doubtful, and less 0.60 is unsatisfactory. Table 4.7 presents the results of the Alpha Cronbach of six constructs. The result of these constructs regarding internal consistency reliability Alpha Cronbach values was ranged from 0.858 to 0.661. The Ownership structure construct was below 0.70 standards; this construct can say still reliable as far as to close 0.70 as scored 0.66, the rest of all constructs were higher than 0.70 at a significant level. Hence, the reliability of the constructs is confirmed.

Table 4.7 Reliability analysis- Alpha Cronbach,

No	Construct/Dimension	Cronbach's alpha	N of Items
1	Overall	0.921	42
2	Accounting profession	0.804	9
3	Ownership structure	0.661	6
4	Legal system	0.743	8
5	Culture	0.702	8
6	Financial reporting	0.858	11

4.3 Correlation Analysis

The correlation between two variables measures the degree of linear association (Brooks, 2008), Pearson correlation coefficient was used to find out the relationship between independent and

dependent variables. The value between positive and negative one indicates the relationship between two variables, while the correlation coefficient of zero indicates no linear relationship between the two variables (Fola, 2105).

Table 4.8 Correlations

		AFR	APES	LS	C	OS
AFR	Pearson Correlation	1	.536**	.600**	.642**	.635**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	150	150	150	150	150
OS	Pearson Correlation	.536**	1	.557**	.615**	.597**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	150	150	150	150	150
APES	Pearson Correlation	.00**	.57**	.000	.35**	.80**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	150	150	150	150	150
LS	Pearson Correlation	.642**	.615**	.635**	1	.586**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	150	150	150	150	150
C	Pearson Correlation	.635**	.597**	.480**	.586**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	150	150	150	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4.8 demonstrated the strong relationship between AFR "dependent variable" and OS, APES,

LS and C "Independent variables" and strong correlation among these variables., this result was

obtained from the correlation matrix, which is based on Pearson Correlation. The constructs for legal system (LS), culture(C) and accounting profession and educational system (APES) were highly correlated with the AFR-based Pearson Correlation coefficient (0.642, 0.635 and 0.600), respectively. Furthermore, the constructs for ownership structure had a positive correlation with AFR as gained 0.536. Moreover, the significant level of Pearson Correlation among AFR and OS, APES, LS and C were significant at the 0.01 level while $p = 0.00$. Also, Table 4.8 presented the correlations among predictors. The construct for the legal system (LS) was high with correlated OS, APES, and C (0.615, 0.635 and 0.586), respectively. Similarly, construct for ownership structure were high with correlated LS, C and APES (0.615, 0.597 and 0.557), respectively. Likewise, construct for the accounting profession and educational system correlated LS, OS and C (0.635, 0.557 and 0.480), respectively. Finally, culture was moderately associated with OS, LS and APES; .597, .586 and .480 respectively and significant levels of among constructs and p-value were at the 0.01 level while $p = 0.00$. Moreover, legal system and culture had the highest correlation with AFR; this suggested both factors could be the best predictors of overall AFR as estimated (0.642, $PV = 0.000$, 0.635, $PV = 0.000$).

4.4.0 Regression Analysis

The study performed multiple linear regression analyses based on the model to determine the correlation between dependent and independent variables.

$AFR = a + \beta_1 (Culture) + \beta_2 (Legal\ system) + \beta_3 (accounting\ profession) + \beta_4 (Business\ ownership\ and\ organization)$.

Where: a is constant, β_1 is the equal coefficient of the independent variable value. AFR is equal adoption of financial reporting.

4.4.1 Multiple Linear Regression

A multiple linear regression analysis was performed to determine the factors influencing the adoption of financial reporting; the study used four independent variables; legal system, culture and accounting profession and educational system and ownership structure. Table 4.9 illustrates the results of the regression model summary. It depicts the R-value, which indicates the relationship between the dependent and predictor variables. In addition, it shows the R square, a regression coefficient that quantifies how much the predictor variables explain the dependent variable, and the Adjusted R-squared, an indicator of the regression result's reliability.

The results of the R-value indicated that the relationship between predictor variables and the dependent variable is strong as its coefficient showed the prediction level of 0.757. This is a good indication as it presented a strong relationship among variables. While the R square coefficient determination of four predictor variables in the model summary presents 0.572, which explains that 57.2% variation of the dependent variable is attributed to the combined effect of independent variables. However, 42.8% variance of the dependent variable is explained by other factors not covered in the study and may be due to the other factors. The Adjusted R-squared showed that 56.1% of the variance of the dependent variable was attributed to predictor variables in the study. Moreover, table 4.16 presents that the result of the overall model is significant as predicated pvalue of 0.000. Thus, the model implies that four independent variables can significantly be used to predicate the dependent variable, the adoption of financial reporting. The study added that the overall regression model was significant, $F(4,145) = 45$, $p < .001$, $R^2 = 57.2\%$.

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Number of obs	Sig. F Change
1	.757 ^a	.572	.561	150	.000

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5923.396	4	1480.849	48.522	.000 ^b
	Residual	4425.278	145	30.519		
	Total	10348.673	149			

a. Dependent Variable: AFR

b. Predictors: (Constant), OS, C, APES, LS

Table 4.9 shown the coefficients and significant of each individual independent variables, the first three independent variables: Culture(C), legal system (LS) and accounting profession and educational system (APES) positively and significantly influences the adoption of financial reporting (AFR) in SMEs (coefficient= 0.483, p values= 0.000, coefficient=.395, p values= 0.002, coefficient=.313, p values= 0.001) at 5% significance level. However, the fourth variable, ownership structure (OS), was not statistically significant as its Unstandardized Coefficient and

significant level predicated 0.056 and 0.708. The respondents were asked seven questions related to the effect of ownership structure on the adoption of financial reporting in SMEs. The result of multiple regression analysis indicates that the ownership of SMEs in Mogadishu, whether family or non-family owned, has not influenced the adoption of financial reporting.

Table 4.10 Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Beta			Lower Bound	Upper Bound
(Constan)	4.493		1.465	.145	-1.570	10.556
C	.483	.343	4.633	.000	.277	.688
LS	.395	.263	3.213	.002	.152	.639
APES	.313	.252	3.370	.001	.129	.497
OS	.056	.029	.375	.708	-.238	.350

Dependent Variable: AFR

4.7.2 Model Interpretation

Based on the multiple leaner regression analysis findings based on the study model, the following

facts were derived to explain the relationships between dependent and independent variables. The following equation shows the result of the model.
 $AFR=4.493+0.483(C)+0.395(LS)+0.313(APES)+0.056(OS)$.

Where:

AFR = Adoption of financial reporting among SMEs in Mogadishu.

C = Culture.

LS = Legal System.

APES = Accounting profession and educational system.

OS = Ownership structure.

Regarding the above regression equation, considering that all independent variables are constant at zero level, the adoption of financial reporting in SMEs will be 4.493. The analysis showed that a unit increase of culture would lead to a 0.483 increase in the adoption of financial reporting in SMEs. A unit increase in the legal system will lead to a 0.395 increase in adopting

financial reporting in SMEs. Similarly, a unit increase of the accounting profession and educational system will lead to a 0.313 increase in the adoption of financial reporting in SMEs. Finally, a unit increase in the legal system will lead to a 0.056 increase in the adoption of financial reporting in SMEs.

4.4.2 Hypotheses test and Discussion

The study examined the influence of four explanatory constructs on the adoption of financial reporting among SMEs in Mogadishu; legal system, culture, ownership structure and accounting profession and educational system. There were four research hypotheses; these hypotheses symbolled H1, H2, H3 and H4, respectively. To test the model assumption whether the result supported this assumption or rejected table 4.11. Illustrated the summary of hypnotical tests.

Table 4. 11 Summary of hypnotical tests

Constructs	hypothesis	Std. Error	Beta	T value	Sig	Decision
LS	H1	.123	.263	3.213	.002	Supported
C	H2	.104	.343	4.633	.000	Supported
OS	H3	.149	.029	.375	.708	Rejected
APES	H4	.093	.252	3.370	.001	Supported

Regarding the legal System, the first independent variable was used to measure the factors influencing the adoption of financial reporting. The result predicted a strongly positive relationship between Ls and AFR as its beta coefficient (0.263). This prediction is strongly supported by tstatistic and p-value (3.213 and .002). Thus, the null hypothesis of this variable was rejected as the P-value is sufficiently low as less than 5%. This theoretical consideration is in line with the findings of (Almujamed, Tahat, Omran and Dunne, 201) as investigated factors influencing the development accounting and financial reporting. According to the Culture, the result showed a strong positive

relationship between C and AFR as its beta coefficient (0.343). This prediction is strongly supported by t-statistic and p-value (4.633 and .0000). Thus, the null hypothesis of this variable was rejected since the P-value is sufficiently low as less than 5%. Also, this result is in line with the findings of (Almujamed, Tahat, Omran and Dunne, 2017). Moreover, Lawrence (2010) reported the same result. In contrast, (Dounnik and Perera, 2012) found a negative relationship between C and AFR.

Regarding the result of OS, the result showed a weak positive relationship between OS and AFR as its beta coefficient (0.029). This prediction is

strongly supported by the PV (0.708). Thus, the null hypothesis of this variable was not rejected since the P-value is statistically high as far more significant than 5%. This result differs from (Mijena 2020), which showed that the ownership directly impacted the country's financial reporting practice. Furthermore, Chua and Gray (2020) reported that ownership structure has more effect than stated family-controlled businesses and companies with broader ownership. This is because family-controlled firms have little incentive to report while broader ownership firms provide detailed reports and disclosure due to demand for public disclosure. Finally, the study tested the correlation between APES and AFR. The result predicted a strongly positive relationship between APES and AFR as its beta coefficient (.252). This prediction is strongly supported by t-statistic and p-value (3.370 and .001). This result is in line with prior findings of (Muiz and Branson 2011; Almujaed, Tahat, Omran and Dunne 2017, Muniandy & Ali, 2012), as found APES essential function for advancing financial reporting and it has a significant impact on its adoption.

4.5 Conclusion

Using 60 SMEs across Mogadishu, the study explores factors influencing the adoption of financial reporting among SMEs in Mogadishu. The study utilized descriptive, correlation and regression analysis to accomplish research objectives. Overall, the study found a positive correlation between the factors predicated as culture, legal system, accounting profession and educational system and ownership structure with the adoption of financial reporting among SMEs in Mogadishu.

The study generates the following results. First, the study found a significant positive association between culture and adoption financial reporting. Among all identified factors, the result showed the magnitude of the relationship of culture is the high culture is high as influential factor on the adoption of financial reporting and confirms that the culture is the main driver of adoption financial reporting among SMEs in Mogadishu. Second, the study found a significant positive association between legal system and the adoption financial reporting. Moreover, legal system is the next influential factor that may shape the adoption of financial reporting. Third, the study found that accounting profession and educational system have a significant

relationship with the adoption of financial reporting. This confirms the increase of the accounting profession and educational system will lead to an increase in the adoption of financial reporting in SMEs. Finally, study established a weak positive association ownership structure with the adoption of financial reporting and the influence of this factor seems more insignificant.

4.6 Limitations of the Research

As any study has its own limitations, this study has a number of limitations; bias may exist according to questionnaire, even though there was control over participants, it is also not known the prejudice of participants' opinion such as departure from the reality. However, this seemed negligible, and does not affect the overall findings.

Furthermore, the study used 200 sample sizes and limited to the Mogadishu, it better to study large samples and the whole county, however, the study claims does not affect the overall research findings. Regarding the profile of the participants even though they appeared to be a fair representation in terms of age, qualification and positions it is not known whether these signify the actual profile of the field. For instance, the total of the participants did not have great experience about the financial reporting, and it is not known whether this limitation or not.

4.7 Recommendations

The adoption of financial reporting would result key management decision-making process, financial assistance from the banking sector, attraction more funds and leads to business growth and shareholders' confidence in the financial statements and comparability of financial statements. To achieve this key importance, the study recommends the following areas:

- SMEs should start the adoption of financial reporting process by using transitional period since one time it cannot happen, all companies should them sufficient time.
- The execution should be facilitated by the Somali government through the equipping of new accounting software with free training.
- The establishment of financial reporting committee those oversight the adaption process of financial reporting and functions of entities.

- The companies should collaborate with Somali institute of certified of public accountants (SICPA).
- Accounting practitioners should cooperate with software developers towards customizing accounting software which will make easy the adoption of financial reporting which is practically flexible to entities.
- To accomplish the adoption of financial reporting and achieve desired competencies of the accounting staff, the companies should devote more resources and collaborate with training institutions to impact the needed skills in their staff.
- Accounting practitioners should use training platforms to share emerging practices and concepts coming from their professional institutes and bodies to have access international workshops and conferences.
- Companies should give priority and place first about training and equipping their accountants to conceptualize the accounting standards which would help the preparation of financial reporting.

4.8 Reference

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