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The Implication on Financial Statements in Corporate Governance compliance on International Financial Reporting Standards IFRS in SMEs in the manufacturing sector in Harare

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Abstract

The purpose of this study was to examine the adoption of IFRS for SMEs with specific focus to those which are operating in the manufacturing sector of Harare. The research was mainly triggered by the dearth of literature on adoption of IFRS for SMEs and how this has impacted on their financial performance in the context of Zimbabwe. More precisely the study sought to unearth reasons for adoption of IFRS for SMEs, challenges faced in adoption of the IFRS for SMEs, level of adoption of IFRS for SMEs, impact of the adoption level on financial performance and ultimately to unravel strategies to improve adoption IFRS for SMEs. The research was underpinned on the Institutional theory and the Resource Based View theory. Using the mixed methods approach as informed by the pragmatic research philosophy the researchers used a sample of 74 participants and a descriptive research design to obtain answers to the research problem. The study revealed that the need to produce high quality comparable financial statements which assists SME owners to make sound economic and more informed financial decisions is the major reason for adoption of IFRS for SMEs. It was also unearthed that the major challenges faced by SMEs in their attempts to adopt IFRS for SMEs are lack of training, high cost of hiring qualified accountants, high costs of IFRS for SMEs adoption and complexity of the IFRS for SME to SME accounting officers. The study also indicated that only 10.8% of the SMEs have fully adopted the IFRS for SMEs and majority (71.4%) of the SMEs have partially adopted the IFRS for SMEs. The study revealed that there is a statistically significant positive relationship between level of uptake of IFRS for SMEs and profitability of SMEs. The study recommended the government through SEDCO or Ministry of SMEs to consider giving incentives to SMEs that fully adopts IFRS for SMEs in order to encourage full adoption of the standard by all players in the sector. Future researchers were recommended to replicate the study in foreign countries like Zambia, Mozambique and Malawi and compare results for consistency or inconsistency.

Key Words: Zimbabwe, Small and Medium and Enterprises (SMEs), International Financial Reporting Standard (IFRS), Corporate Governance

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Introduction and Background of the Study

Financial statements produced in compliance with International Financial Reporting Standards (IFRS) are crucial in the running of businesses as they assist in decision making on carrying out business effectively and efficiently. Small and Medium sized Enterprises (SMEs) have been and are still accepted worldwide as major engines of economic growth and development (Osotimehin, Jegede, Akinlabi and Olajide, 2012). This explains why governments, particularly in developing countries like Zimbabwe have made significant strides in establishing policies that enhance the capacity of SMEs. The SME firms in majority of the countries, comprising of both the developed and the developing ones, are faced with severe chronic challenges that compromise their ability to operate effectively and efficiently (Nyoni, 2012). However, notwithstanding the efforts by the governments in several countries to assist the operations of the SMEs, 80% of them have fallen short of expectations (Mwangi, 2011).

The dramatic growth of SMEs in majority of the countries worldwide (Chironga, Dahl, Goland, Pinshaw and Sonnekus, 2012) and in Zimbabwe is attributable to the people's quest to be self-employed, lack of employment in the formal sector and not because it is easy to establish and manage. SMEs are referred to as a catalyst in the socio-economic development of any country (Jagongo, 2012). They are veritable vehicles for the achievement of national macroeconomic objective in terms of employment generation and enhancement of apprenticeship business management training (Osotimehin et al, 2012). A notable number of SMEs in Zimbabwe have not performed creditably well and they have not played expected significant role in economic growth (Osotimehin et al, 2012).

Thousands of graduates are churned into the economy of Zimbabwe annually notwithstanding the fact that formal employment is difficult to get. The majority of the graduates and other citizens retrenched has joined the SME sector (Confederation of Zimbabwe Industries, 2018). The SME sector is playing a pivotal role in creating the much-needed employment. According to Majoni et al (2016), SMEs contribute in excess of 60% of employment in the country. The sector also significantly contributes 60% of Gross Domestic Product (Chiwara, 2015). Hence, the role of SMEs in Zimbabwe is very significant. There is now broad consensus that a vibrant SME sector is one of the principal components of a thriving market economy and should not be allowed to fail (Chiwara 2015). Worku (2013) categorically stated that the failure of SMEs represents the failure of the national economy in light of the fact that it now constitutes a large portion of the economy of Zimbabwe. However, 50% of SMEs have closed their doors due to a myriad of challenges (Sasic, 2016).

The most recurring and significant challenge faced by SMEs in Zimbabwe is access to finance (Gono 2013). In Zimbabwe, the SMEs have the potential to turn around the country's

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economy but the major challenge remains that of being underfinanced, (Gono, 2013). Literature is awash with evidence that the major reason why small firms fail is due to poor financial management and reporting (Mazhindu 2013). Consequently, it is crucial for SMEs to have some form of financial reporting.

Zimbabwe Accounting Practices Board (ZAPB) stated clearly and categorically that there is a low-level uptake of IFRS for SMES reporting framework since its adoption in 2009 and it was unanimously agreed that there was an urgent need to look at the obstacles of adoption of the framework, with a view to map a way forward, (Public Accountant and Auditors Board, 2013). Concerns have however been raised about the burden to financial statement preparers and the relevancy of the resulting information to multiple users of SME financial statements (Mazhindu 2013).

Most of the research has been carried out in developed countries with very few from developing countries. However, in light of the turbulent political and economic environment, there is need to do further research of whether the number of SMEs adopting IFRS for SMEs has increased or not between 2015 and 2020 in Zimbabwe. This study covered the manufacturing sector of SMEs in Harare using a case study design approach that allowed the researcher to understand the specific challenges faced in adopting IFRS for SMEs by SMEs in Harare's manufacturing sector in detail, holistically and contextually.

1.2 Statement of the problem

Great concerns have been raised with respect to the huge burden to financial statement preparers and the relevancy of the resulting information to lenders, vendors, credit rating agencies, family investors, development agencies and others who use SME financial statements (Mazhindu, 2013). A number of studies have been conducted to assess the adoption of IFRS for SMEs in different countries particularly in developed countries. Less is known about the adoption of the IFRS for SMEs in Zimbabwe and how this has affected their financial performance. To that end, this research aims to bridge this gap and tries to gauge the uptake level, and challenges faced by SMEs in the process of adoption of IFRS for SMEs. The study is therefore motivated because of scanty literature available on IFRS for SMEs adoption in Zimbabwe.

1.3 Research Objectives

1. To establish the reasons for adopting IFRS for SMEs in the manufacturing sector of Zimbabwe.
2. To examine the challenges being faced by manufacturing SMEs in Zimbabwe in adopting IFRS for SMEs
3. To establish the level of uptake of IFRS for SMEs by entities in the manufacturing sector of Zimbabwe
4. To unravel ways that manufacturing SMEs can use to improve the adoption of IFRS for SMEs.

2.0 Review of Related Literature

2.1 Theoretical Framework

2.1.1 Institutional Theory

Institutional theory concisely defines institutions as a “way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a

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people” (Hamilton, 1932 p.84, cited in, Burns & Scapens, 2000). Consistent to this definition is that of Barley and Tolbert (1997, p. 96) who defined institutions as “the shared taken for granted assumptions which identify categories of human actors and their appropriate activities and relationships”.

Institutional theory premised on the notion that institutional environments are socially constructed (Meyer & Rowan, 1977). Eminent researcher Scott (2001) contented that organizations across the globe cannot be comprehended by insulating them from their surrounding social and cultural context. The Institutional theory has been mainly used to examine the interdependencies between accounting and its social environment (Scott, 1995). This research project investigated the reasons for internationally comparable accounting information for Zimbabwean SMEs. Notwithstanding that some developed nations that include Australia and New Zealand have not adopted the *IFRS for SMEs* (Chand et al., 2015), several developing nations that include Zimbabwe have embraced the IFRS for SMEs (PAAB, 2010). Renowned authors that include Al-Omari, 2010 and Quagli & Paoloni, 2012).

2.1.2 Resource Based View theory

The Resource Based View (RBV) theory of the firm is a model which enables a firm to attain sustainable competitive advantage through the use of its resources and core competencies (capabilities) (Karthikeyan, Bhagat and Kannan, 2011). The theory covers the use of the firm’s valuable resources in order to attain competitive advantage over others. The firm’s resources are categorically classified as tangible, intangible and organizational and these include human resource, assets and infrastructure (SotoAcosta & Merono-Cerda, 2008). Majority of SMEs due to their size have very much limited resources in terms of tangible, intangible and organizational elements. Hence, they are not able to pay for all resources required to ensure that a good and sound financial reporting system that aligns with the International Financial Reporting Framework is put in place. This often result in their loan applications being rejected by banks (Nyoni, 2014). To that end the theory is applicable to the study. More so, as confirmed by the study of Wijekoon (2018) the financial and human resource constraint are the major challenges inhibiting SMEs from adoption of IFRS especially in developing countries.

2.2 Reasons for adopting IFRS for SMES

Empirical evidence is awash with different purposes behind the adoption of IFRS by SMEs. The purposes behind the adoption of IFRS have been uncovered by researchers from multiple perspectives. That is from the perspective of benefits to SME proprietors, managers, bookkeepers and investors (Deigh, 2015). An empirical investigation on the benefits and difficulties of preparing accounts using IFRS for SMEs was done in 2017 by Zoubi in Saudi Arabia. The investigation uncovered that there are seven significant advantages of embracing IFRS. The advantages were unearthed as significant reduction in the price of capital, high quality management information, fast decision making, improved risk management, reduction in audit expenses, improved internal audit and better access to capital including from foreign investors. .

2.3 Challenges faced by SMEs in adopting IFRS for SMEs

Masoud, (2014) and Amanamah (2017) are of the view that the usage of IFRSs by developing nations accompanies a great deal of difficulties. This has been uncovered by exact

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investigations led in creating nations. Chief among the difficulties confronted by SMEs in adoption of IFRS incorporate issues with the IASB's development process of IFRS for SMEs, national enactments and authorization issues, lack of accounting and training, Insufficient training resources, incompatible information systems and communication challenges (Perera, 2015)

2.4 Level of adoption of IFRS for SMEs across the globe

In the United States of America, the IFRS for SMEs is available as a major basis for reporting by private entities (that is unlisted firms) because there is no regulation for statutory financial reporting. It is now nearly a decade since IFRS for SMEs was first issued. South America, Central America, the Caribbean, Africa, Asia, Middle East and European regions have also adopted IFRS for SMEs (IFRS Foundation, 2014a).

South Africa was quick to adopt IFRS for SMEs, with no modifications when the ED of IFRS for SMEs was issued by the IASB in October 2007 (Perera 2015). The country broke the record as first nation across the world to adopt the IFRS for SMEs (SAICA, 2013).

In Zimbabwe, the IFRS for SMEs was adopted in 2010 when it was having been published in 2009 by the IASB, (Mazhindu, 2013). Mazhindu (2013) revealed that 80% of the SMEs do not maintain accounting records; none had adopted IFRS for SMEs. 20% which had accounting records observed provisions of IFRS in general which were in line with Generally Accepted Accounting Standards. Three years later another study was done by Nematiere on the adoption of IFRS for SMEs and the study unearthed that a mere 17% have adopted the standard in Bulawayo. It is vital to realize that that, there are various changes that have occurred in the business environment that has an influence on the SMEs adoption of IFRS which requires the current study to be conducted. More so, the ICAZ and PAAB have made extensive campaigns of encouraging SMEs to adopt the IFRS since 2013(Mazhindu, 2013). This study bridges the gap through assessing the latest level of adoption of the IFRS for SMEs thereby revealing if the efforts of ICAZ and PAAB has yielded any positive result or not.

2.5 Impact of take-up of IFRS for SMEs on financial performance

The adoption of IFRS is without a doubt one of the key factors that has an impact on the financial performance of SMEs over the globe (Pietila, 2017). IFRSs are required to remain helpful to entrepreneurs, auditors, bookkeepers and accountants for the foreseeable future (Agyemang, 2016). Chief among the advantages that have been appreciated by SMEs who have adopted IFRS for SMEs over the globe involve decreased borrowing expenses, increased profitability of the SME, expanded access to finance and expenditure control (Wijekoon, 2018).

Moyo (2012) indicated that SMEs face the, high risk of business failure if the uptake of IFRS for SMEs is low. The author argued that a simple management error may result in sure bankruptcy of a small enterprise hence no opportunity to learn from its past mistakes. SMEs that do not adhere to IFRS for SMEs face the challenges of poor planning, improper financing and poor management (Mwobobia, 2012).

2.6 Strategies to encourage adoption of IFRS by SMEs

Research conducted in Romania and Europe by Buculescu (2016) unearthed that the translations that was done by the IASB of IFRS for SMEs into multiple languages that

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include Albanian, Arabic, French, Croatian, Romanian, Russian, Spanish, Turkish, Japanese, Polish, Portuguese, Italian, Estonian, German and several others languages since 2009 when IFRS was first issued to a large extent improved the adoption of the standards. IFRS (2013b) unearthed that by June 2013 IFRS for SMEs had managed to translate into 26 languages and only two languages that is Mandarin and Khmer related to countries ASEAN countries. Another prominent author Ebogbue, (2016) echoed similar sentiments with Buculescu(2016) on the view that the IFRS for SMEs is contained in a 230-page document comparatively to nearly three thousand pages of the full IFRS. In the year 2013, the International Accounting Standard Board came out with a guide to help SMEs adopt IFRS for SMEs (IASB, 2013).

2.6.1 Training of employees for accounting courses and smooth implementation of IFRS for SMEs

Eminent author Mazhindu (2013) unearthed the crucial role played by training of accountants to the SME sector. The author argued that training preparers of financial statements of SMEs is vital because they do not prepare proper accounting records particularly in Zimbabwe. Mazhindu (2013) further argued that there is need to walk through accountants of SMEs on proper steps to implement IFRS SMEs to ensure that the intended results are achieved by the organization. Hussain et al (2012) echoed similar sentiments on the position that the training requirement is key with respect to accounting practitioners. The authors clearly stated that the accountants and or bookkeepers of SMEs are supposed to undergo sufficient training and education to appreciate the differences between full IFRS and IFRS for SMEs. Training also help SMEs to appreciate the potential merits to be enjoyed by the organization from adoption of the IFRS for SMEs. Bare (2016) in research carried out in Nairobi Kenya on the influence of the adoption of IFRS for SMEs on financial performance unearthed that adoption of IFRS negatively influence performance due to costs associated with training of staff and consultancy. The study strongly recommended that SME owners and managers are supposed to train their employees to effectively reduce the cost of financial accounting standard adoption resulting in improvement in financial performance by SMEs.

3.0 Research Methodology

The research proceeds by way of precisely and concisely articulating the research methodology used by the researcher in addressing the research problem. The purpose of the research methodology is to outline combination of both quantitative and qualitative approaches that were used in generating data for this research. To that end, the study population for this study therefore consisted of owner managers or accounting officers of 304 registered manufacturing companies within the SME sector of Harare (Ministry of small and medium enterprises) and 4 Key Interview Informants that include each of the senior managers of ICAZ, PAAB, SEDCO and Ministry of SMEs. The case study research approach was also used in this study. The study sample comprised of 74 participants, representing the population parameters emphasized in the sampling frame.

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4.0 Results and Discussion.

4.1 Response rate analysis

Table 4.1 Questionnaire study response rate

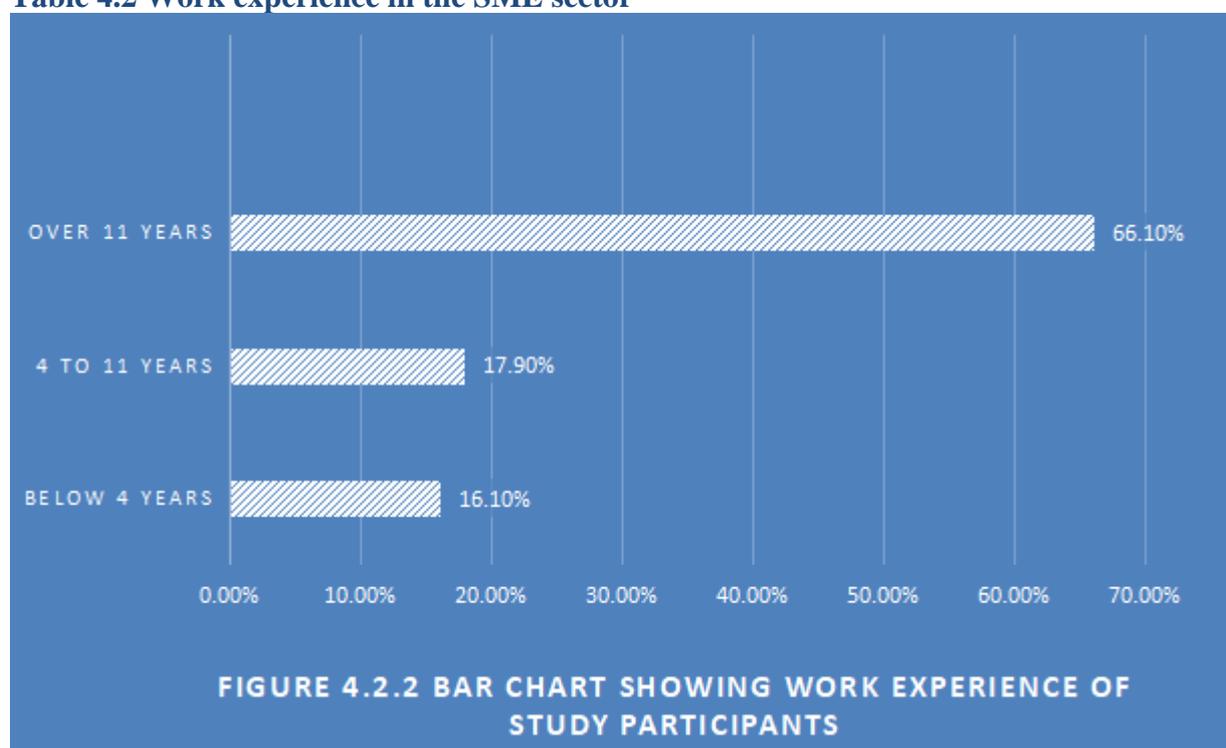
	Questionnaires sent	Questionnaires filled and returned	Questionnaires not returned
Frequency	70	56	14
Percentage	100%	80%	20%

Source: Primary data (2021)

From table 4.1 above, of the seventy questionnaire dispatched to study participants, fifty-six were completed and returned and that translated to a high response rate of 80%. The high response rate was attributable to constant reminders and follow ups made by the researcher. Only fourteen questionnaires were not returned and that translated to a non-response rate of 20%. According to Marume (2020), a response rate that is within the range of 50% to 60% is fairly good enough to warrant the researcher of valid, reliable and credible research findings. Hence, this study with a study response rate of 80%, gives the researcher adequate confidence that the results are great and fully represent the target population and can be safely generalized to the target population.

4.2 Demographic data analysis

Table 4.2 Work experience in the SME sector



Source: Primary data (2021)

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From bar chart on Table 4.2 above of the fifty-six study participants, 66.1% had more than eleven years work experience in the SME manufacturing sector, 17.9% had between 4 to 11 years work experience and 16.1% had lower than four years work experience. The result showed that majority of the study participants had more than a decade of experience in the SME manufacturing sector. Thus the study collected data from more experienced study participants. This improves the validity and credibility of responses of study participants given their vast SME manufacturing experience.

4.3 Reasons for adoption of IFRS for SMEs

The first objective of this research was to establish the reasons for adoption of IFRS for SMEs. The answers to this objective are shown in the subsequent sections 4.3.1 to 4.3.6

4.3.1 Improvement in credit rating status

Table 4.3.1 Response on improvement in credit rating status

Credit rating status of SMEs that use IFRS is enhanced					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	2	3.6	3.6	3.6
	Disagreed	4	7.1	7.1	10.7
	Unsure	2	3.6	3.6	14.3
	Agreed	16	28.6	28.6	42.9
	Strongly agreed	32	57.1	57.1	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

As displayed on table 4.3.1 above, 57.1% of the study participants strongly agreed and 28.6% of the respondents agreed that credit rating status of SMEs that use IFRS is enhanced. On the other hand, a combined 10.7% disputed the position that credit rating status of SMEs that use IFRS is enhanced. Only 3.6% of the study participants were undecided if credit rating status of SMEs that use IFRS is enhanced or not. The result shows that majority of the study participants were of the view that credit rating status of SMEs is significantly improved through adoption of IFRS is enhanced. This result was supported by Mazhindu (2013) who revealed that SMEs that use IFRS for SMEs have better credit rating when compared with those that do not maintain financial records. The author argued that use of IFRS for SMEs implies one is keeping all accounting records and all transactions have a clear audit trail, hence the accounts are acceptable to multiple stakeholders that include bankers, government and potential investors.

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4.3.2 Improvement of quality of financial management decisions made

Table 4.3.2 Response on improvement of quality of financial management decision made

Adherence to IFRS for SMEs improved quality of financial management decisions made

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	2	3.6	3.6	3.6
	Disagreed	6	10.7	10.7	14.3
	Agreed	20	35.7	35.7	50.0
	Strongly agreed	28	50.0	50.0	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

From the display on table 4.3.2 above, 50% of the study respondents strongly agreed and another 35.7% agreed that adherence to IFRS for SMEs improved quality of financial management decisions made. However, a total of 14.3% of the research participants refuted the position that adherence to IFRS for SMEs improved quality of financial management decisions made. The result showed that majority of the study participants concurred that adherence to IFRS for SMEs improved quality of financial management decisions made. The result was supported by Litjens et al (2012) as cited in Wijekoon (2018) that firms that adopt IFRS for SMEs are capable of making more informed sound and better financial management decisions because they have all the relevant input with them in respect of the current expenses and revenues which are the bases of forecasts made by finance managers in the real world of business.

4.3.3 Reduction in audit expenses

Table 4.3.3: Responses on reduction of audit expenses

Audit expenses are reduced through adherence to IFRS for SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	4	7.1	7.1	7.1
	Disagreed	8	14.3	14.3	21.4
	Agreed	22	39.3	39.3	60.7
	Strongly agreed	22	39.3	39.3	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

From exhibit on table 4.3.3 above, 39.3% of the study participants strongly agreed and another 39.3% of the research participants agreed that audit expenses are reduced through

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adherence to IFRS for SMEs. However, an overall 21.4% of the research participants opposed the view that audit expenses are reduced through adherence to IFRS for SMEs. The result showed that majority of the participants shared the view that audit expenses are reduced through adherence to IFRS for SMEs. The result was also supported by Wijekoon (2018) who indicated that where the external auditors face less difficulties in extracting relevant information, they spend less hours in carrying out the audit, hence the auditors charge less audit fees to the client.

4.3.4 Easy prediction of the going concern status of the firm

Table 4.3.5 Responses on easy prediction of the ongoing concerns status of the firm

The going concern of the company can be correctly predicted if accounts are produced based on IFRS for SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	2	3.6	3.6	3.6
	Disagreed	2	3.6	3.6	7.1
	Unsure	6	10.7	10.7	17.9
	Agreed	26	46.4	46.4	64.3
	Strongly agreed	20	35.7	35.7	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

Table 4.3.5 shows that 46.4% of the respondents agreed, 35.7% of the participants strongly agreed, 10% of the participants were undecided and a combined 7.1% of the research participants opposed the statement that the going concern of the company can be correctly predicted if accounts are produced based on IFRS for SMEs. The result was supported by Chand et al (2015) who revealed that SMEs that adopt IFRS for SMEs are able to correctly tell their financial stability and all the input for the Altman Z model of financial bankruptcy prediction can be correctly computed, hence it's easy to ascertain the SME going concern status.

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4.3.5 Easy comparability of SME financial performance

Table 4.3.6 Responses on easy comparability of SME financial performance

Comparability of SMEs performance across the globe is enhanced through adherence to IFRS for SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	2	3.6	3.6	3.6
	Disagreed	2	3.6	3.6	7.1
	Agreed	20	35.7	35.7	42.9
	Strongly agreed	32	57.1	57.1	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

The illustration on table 4.3.6 above shows that 57.1% of the research participants strongly agreed and 35.7% of the study participants agreed that comparability of SMEs performance across the globe is enhanced through adherence to IFRS for SMEs. On the contrary, 7.1% of the research participants objected to the view that comparability of SMEs performance across the globe is enhanced through adherence to IFRS for SMEs. The result was supported by Deugh (2015) who indicated that adoption of IFRS for SMEs by entities in different jurisdictions enhances comparability of their financial performance and potential investors can easily identify viable or non-viable entities to direct their funds to.

4.3.6 Easy processing of ZIMRA taxes

Table 4.3.7 Responses on easy processing of ZIMRA taxes

Processing and payment of ZIMRA taxes is made easy through adherence to IFRS for SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagreed	2	3.6	3.6	3.6
	Unsure	2	3.6	3.6	7.1
	Agreed	28	50.0	50.0	57.1
	Strongly agreed	24	42.9	42.9	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

From table 4.3.7 above, 50% of the respondents agreed and 42.9% of the participants strongly agreed that processing and payment of ZIMRA taxes is made easy through adherence to IFRS for SMEs. Only 3.6% of the study participants disagreed and another 3.6% of the research

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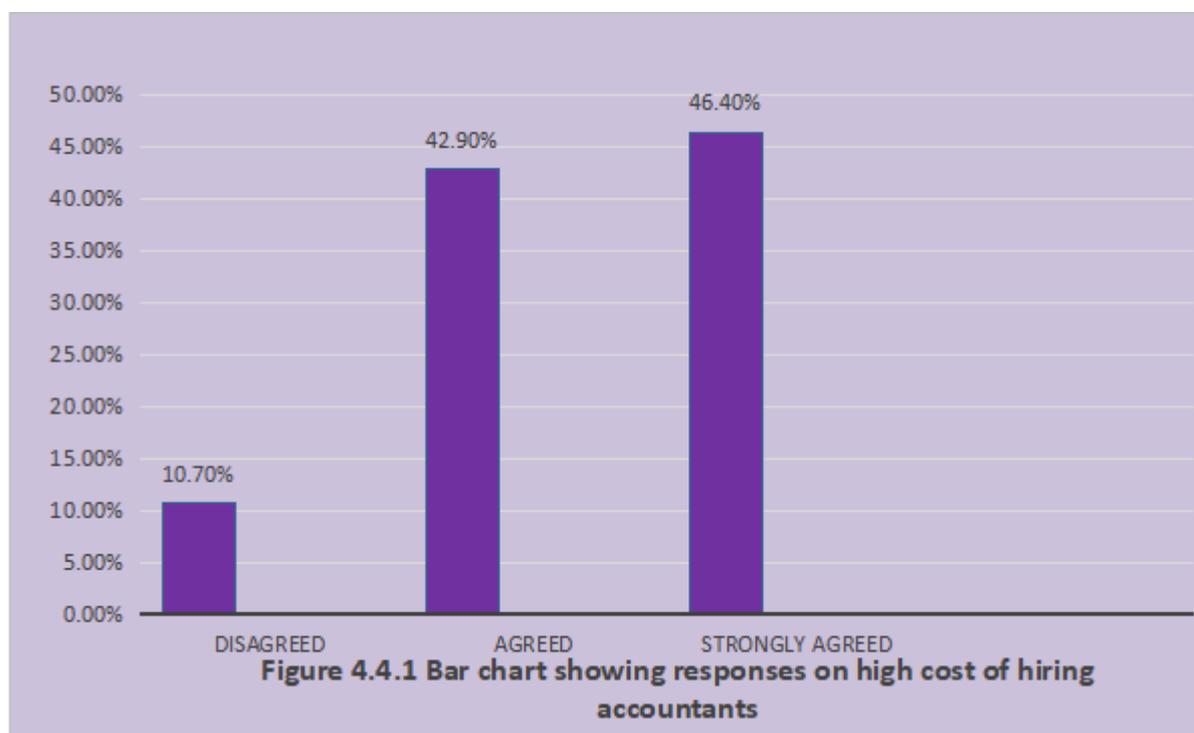
participants were undecided that processing and payment of ZIMRA taxes is made easy through adherence to IFRS for SMEs. The result showed that majority of the study participants were in agreement on the position that processing and payment of ZIMRA taxes is made easy through adherence to IFRS for SMEs. Mutandwa (2019) indicates that submission of ZIMRA returns for VAT and PAYE is made easy if an SME keeps full accounting records in line with IFRS for SMEs guidelines.

4.4 Challenges faced by SMEs in their attempts to adopt the IFRS for SMEs

The second objective of this research was to unpack the challenges faced by SMEs in their attempts to adopt the IFRS for SMEs. Responses to this objective are shown in the subsequent sections 4.4.1 to 4.4.5

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Table 4.4.1 High cost of hiring qualified accountants

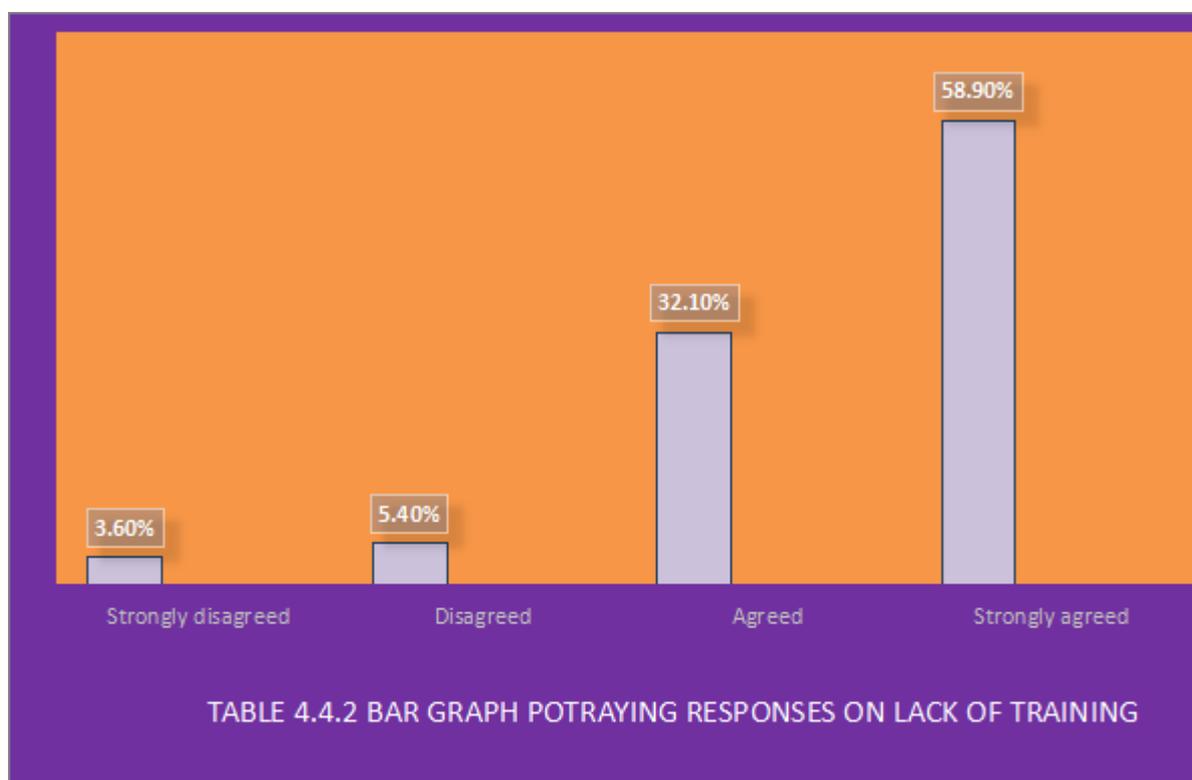


Source: Field research data (2021)

From the illustration on figure 4.4.1 above, 46.4% of the study participants strongly agreed and another 42.9% of the research respondents agreed that accountants capable of using IFRS for SMEs are expensive to hire. In contrast 10.7% of the respondents objected the view that accountants capable of using IFRS for SMEs are expensive to hire. The result shows that majority of respondents were in agreement with the position that one of the major challenge faced by SMEs in their attempts to adopt IFRS for SMEs is the high cost of hiring qualified accountants. This position was supported by Masoud (2014) who indicated that qualified accountants are very expensive to hire and SMEs due to their small size of businesses and revenues they cannot afford to pay for their remuneration and continue to operate viably.

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Table 4.4.2 Lack of training



Source: Field research data (2021)

From the illustration on figure 4.4.2 above, 58.9% of the study participants strongly agreed, 32 % of the respondents agreed, 5.4% of the participants disagreed and 3.6% of the research participants strongly disagreed that accounting officers of SMEs lack the training required to effectively use IFRS for SMEs. The result showed that most of the respondents concurred that accounting officers of SMEs lack the training required to effectively use IFRS for SMEs. This result is consistent to that of Edeigba (2017) and Dowa et al (2017) who unearthed that the lack of trained bookkeepers and accounting officers of SMEs is a major contributor to the failure by majority of SMEs to adopt IFRS for SMEs.

Citation: Nyawo, T; Manhimanzi, G. C; Karuru, B; Ndhlovu, F; Chisango,S; Magoba, C; Gwangwava & Fundira, T. (2022). The Implication on Financial Statements in Corporate Governance Compliance on International Financial Reporting Standards (IFRS) in SMEs in the manufacturing sector in Harare. *Journal of African Interdisciplinary Studies*, 6(7), 14 – 39.

4.5 Level of adoption of IFRS for SMEs

The third objective of this research was to establish the level of adoption of IFRS for SMEs by manufacturing companies in Harare. The result is presented on table 4.5 below.

Table 4.5 Responses of participants on partial adoption of IFRS for SMEs

My firm has partially adopted IFRS for SMEs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagreed	6	10.7	10.7	10.7
	Disagreed	10	17.9	17.9	28.6
	Agreed	21	37.5	37.5	66.1
	Strongly agreed	19	33.9	33.9	100.0
	Total	56	100.0	100.0	

Source: Field research data (2021)

Table 4.5 above shows that of the fifty-six participants, 37.5% agreed, 33.9% strongly agreed and 28.6% objected that they have partially adopted IFRS for SMEs. The result shows that majority (71.4%) of the study participants have partially adopted IFRS for SMEs. The result implies that a very low proportion which is less than 28.6% has fully adopted IFRS for SMEs. A follow up question on level of adoption shows that 17.8% of the participants have not adopted the standard at all and only 10.8% of the study participants have fully adopted the IFRS for SMEs. The low adoption of IFRS for SMEs was supported by Mazhindu (2013) which revealed that there is a very low uptake of the IFRS for SMEs in Zimbabwe due to multiple challenges encountered by SMEs in their attempts to use the IFRS for SMEs in producing their financial statements.

4.6 Impact of uptake of IFRS for SMEs on financial performance

The fourth objective of this study was to establish the impact of uptake of IFRS for SMEs on financial performance. A multiple linear regression model was used to measure the impact of uptake of IFRS for SMEs on financial performance. The level of uptake was regarded as the independent variable and was classified into three categories no adoption at all, partial adoption and full adoption and the dependent variable was represented by response of participants on their level of satisfaction with the financial performance (profitability) of their entities. The regression results are summarized on table 4.6below:

Citation: Nyawo, T; Manhimanzi, G. C; Karuru, B; Ndhlovu, F; Chisango,S; Magoba, C; Gwangwava & Fundira, T. (2022). The Implication on Financial Statements in Corporate Governance Compliance on International Financial Reporting Standards (IFRS) in SMEs in the manufacturing sector in Harare. *Journal of African Interdisciplinary Studies*, 6(7), 14 – 39.

Table 4.6 Inferential statistics: correlation coefficients between level of adoption of IFRS for SMEs and profitability of SMEs

Model		Coefficients				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.293	.346		6.633	.000
	My firm has fully adopted IFRS for SMEs	.032	.147	.039	.221	.006
	My firm has partially adopted IFRS for SMEs	-.066	.084	-.105	-.785	.003
	My firm has not adopted IFRS for SMEs at all	-.207	.121	-.309	-1.713	.009

a. Dependent Variable: The profitability of my company is very satisfactory

Source: Field research data (2021)

From table 4.6 above a positive regression coefficient of 0.032 between firms that have fully adopted IFRS for SMEs and profitability of SMEs implies that full adoption of IFRs for SMEs has a positive influence on profitability of SMEs. The influence was significant because the p value of 0.006 obtained was lower than the margin of error of 5% used by the researcher. The significant positive relationship influenced by the fact that huge profitable tenders can be secured due to adoption of IFRS for SMEs and lower cost finance can be accessed due to adoption of IFRS for SMEs as the financial records are complete and verifiable to multiple stakeholders that include bankers and government agencies. The result is supported by Rudzani (2016) who revealed that full adoption of IFRS for SMEs positively impacts on profitability of SMEs due to improved access to cheaper credit finance as bankers can easily check the creditworthiness of the business.

The table 4.6 above also shows a negative correlation coefficient of -0.066 for those SMEs that has partially adopted IFRS for SMEs and profitability. The result implies that partial adoption of IFRS for SMEs negatively impact on profitability. The result was significant because the p value of 0.003 was lower than the margin of error used by the researcher in undertaking the study.

Table 4.6 also shows a negative correlation coefficient of -0.207 for the relationship between SMEs that has not adopted IFRS for SMEs at all and profitability. The result was also very significant because the p value of 0.009 was also lower than the margin of error of 5% adopted by the researcher in carrying out the empirical investigation. The result implies that profitability of the firm is significantly reduced by failure to adopt the IFRS for SMEs. The result is supported by IASB (2015) which indicated that SMEs that do not use IFRS for SMEs face a huge risk of failure to obtain bank credit finance as their records are usually incomplete and not prepared in line with acceptable financial reporting framework.

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4.7 Strategies to be employed to improve the adoption of IFRS for SMEs.

The last objective of the study was to unravel strategies to be employed to improve the adoption of IFRS for SMEs. A Likert scale was utilized to show level of agreement by the respondent with each strategy identified. The scale ranged from 1(Strongly disagreed) to 5(Strongly agreed). The average response is rounded to the nearest whole number to determine if the respondents agree or disagree with the given strategy. A standard deviation measures the level of consistency of respondents in agreeing or disagreeing with a given strategy. A standard deviation above 1.3 was regarded as high for the purposes of this researcher and any standard deviation below the 1.3 threshold was regarded as low and acceptable.

Table 4.7 Descriptive statistics on strategies to be employed to improve the adoption of IFRS for SMEs.

Descriptive Statistics						
STRATEGY	N	Minimum	Maximum	Mean	Std. Deviation	RANK
<i>Training of SMEs through SEDCO , Vocational centres and tertiary institutions has to be intensified to promote adoption of IFRS for SMEs in Zimbabwe</i>	56	1.00	5.00	4.4107	.94920	1
<i>ICAZ and PAAB has to embark on a nationwide campaign to encourage SMEs to adopt IFRS for SMEs</i>	56	1.00	5.00	4.1607	1.02295	2
<i>SME owners or managers need to encourage their accounting officers to further train and retrain with accounting bodies like ICSAZ, ACCA, ICAWALES, SAAA, and so on.</i>	56	1.00	5.00	4.1429	.94250	3
<i>Seminars need to be conducted by the Ministry of SMEs emphasizing the importance to SMEs of producing their accounts based on IFRS for SMEs</i>	56	2.00	5.00	3.9107	.93957	4
<i>Banks and Micro finance firms are required encourage SMEs to maintain full records adhering to IFRS for SME standard</i>	56	1.00	5.00	3.8929	.96632	5
<i>SMEs are supposed to outsource accounting services from fully trained accounting firms for production of their final accounts</i>	56	1.00	5.00	3.6964	1.24929	6
<i>Valid N (list wise)</i>	56					

Source: Field research data (2021)

Citation: Nyawo, T; Manhimanzi, G. C; Karuru, B; Ndhlovu, F; Chisango,S; Magoba, C; Gwangwava & Fundira, T. (2022). The Implication on Financial Statements in Corporate Governance Compliance on International Financial Reporting Standards (IFRS) in SMEs in the manufacturing sector in Harare. *Journal of African Interdisciplinary Studies*, 6(7), 14 – 39.

From table 4.7 above the strategy to improve the adoption of IFRS for SMEs ranked as number one by respondents is that of training of SMEs through SEDCO, Vocational centres and tertiary institutions. Respondents agreed to the strategy with a mean of 4.4107 and a low standard deviation of 0.94920, implying that they were very much consistent in agreeing with the position that the strategy of training of SMEs through SEDCO, Vocational centres and tertiary institutions is very useful in improving the adoption of IFRS for SMEs in the manufacturing sector of Harare. An interview with a SEDCO official also revealed that accounting officers and SME owners can be equipped with relevant accounting skills through multiple learning platforms that include tertiary institutions, polytechnics and several vocational training centres dotted around the country of Zimbabwe in order to improve adoption of IFRS for SMEs. The result is supported by Mazhindu (2013) and Hussain et al (2012) who revealed that training of SME owners or the SME bookkeepers through tertiary institutions is key in order to enhance adoption of the IFRS for SMEs in Zimbabwe.

Table 4.7 above also demonstrates that number two strategy as ranked by respondents is that of ICAZ and PAAB need to embark on a nationwide campaign to encourage SMEs to adopt IFRS for SMEs. Respondents concurred with a mean of 4.1607 and a standard deviation of 1.02295 that ICAZ and PAAB has to embark on a nationwide campaign to encourage SMEs to adopt IFRS for SMEs.

Strategy ranked as number three by respondents was that of SME owners or managers need to encourage their accounting officers to further train and retrain with accounting bodies like ICSAZ, ACCA, ICAWALES, SAAA, and so on. Study participants concurred with the strategy with an arithmetic mean of 4.1429 and a standard deviation of 0.94250. The low standard deviation implies that respondents were in very much agreement with the strategy of encouraging accounting officers to further train and retrain with accounting bodies. This strategy was consistent to the findings of Pietla (2017) that training of SME accounting officers through professional accounting bodies increase the chance of full adoption of IFRS for SMEs.

Table 4.7 also shows that strategy ranked as number four is that of seminars that needs to be conducted by the Ministry of SMEs emphasizing the importance to SMEs of producing their accounts based on IFRS for SMEs. Respondents were in agreement with a mean of 3.9107 and a very low standard deviation of 0.93957 that seminars need to be conducted by the Ministry of SMEs emphasizing the importance to SMEs of producing their accounts based on IFRS for SMEs. This strategy was also supported in an interview by an official from the ministry of small and medium enterprises who indicated that if the ministry increases its momentum of teaching and educating SMEs in Zimbabwe on the value to be unlocked by SMEs through adoption of IFRS for SMEs, there will be increased uptake of the standard across sectors in Zimbabwe. The result is similar to that of Nematiere (2016) who revealed that accounting-oriented seminars by government agencies with SMEs is a very useful strategy of enhancing adoption of IFRS for SMEs.

Table 4.7 above also shows that strategy ranked as number five by respondents in improving adoption for IFRS for SMEs in Zimbabwe is that of banks and Micro finance firms being required to encourage SMEs to maintain full records adhering to IFRS for SME standard. Thus, respondents agreed with a mean of 3.8929 and a low standard deviation of 0.96632 that the strategy is useful in enhancing adoption of IFRS for SMEs. The table also shows that the last strategy ranked as number six is that of outsourcing accounting services

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from fully trained accounting firms for production of their final accounts. Respondents concurred with a mean of 3.6964 and a slightly high though acceptable standard deviation of 1.24929 that SMEs are supposed to outsource accounting services from fully trained accounting firms for production of their final accounts. The result is supported by Maseko and Manyani (2011) who recommended SMEs to engage qualified accountants specifically for the purposes of producing their financial statements. The result was also consistent to that of Buculescu (2016) who revealed that outsourcing of accounting services is one of the best strategies that SMEs need to consider in order to fully adopt the IFRS for SMEs.

5.0 Findings

The study set out to examine the adoption of IFRS for SMEs with specific focus to those which are operating in the manufacturing sector of Harare. A sample of 74 participants was used and a descriptive research design was used by the researcher to obtain answers to the research problem. The research was mainly triggered by the dearth of literature on adoption of IFRS for SMEs and how this has impacted on their financial performance in the context of Zimbabwe. It was a very difficult exercise to conduct the research due to the reluctance of respondents to provide all the required information to the researcher and restricted movement triggered by COVID 19 restrictions put in place by the government of Zimbabwe. Notwithstanding these challenges, findings were made and the following major research results were obtained:

5.1.1 Reasons for adoption of IFRS for SMEs

The first objective of this research was to establish the reasons for adoption of IFRS for SMEs. In response to the objective, six major reasons were established. These include easy comparability of SME financial performance (92.9%), easy processing of ZIMRA taxes (92.9%), improvement in credit rating status (85.7%), improvement of quality of financial management decisions made (85.7%), easy prediction of the going concern status of the firm (82.1%) and reduction in audit expenses (78.6%).

5.1.2 Challenges faced by SMEs in their attempts to adopt the IFRS for SMEs

The second objective of this research was to unpack the challenges faced by SMEs in their attempts to adopt the IFRS. In addressing the needs of this objective, five challenges were revealed. These include lack of training in respect of accounting officers of SMEs (91%), high cost of hiring qualified accountants (89.3%), high costs of IFRS for SMEs adoption (89.3%), complexity of the IFRS for SME-to-SME accounting officers (76.8%) and lack of a sound accounting system to effectively adopt IFRS for SMEs (64.3%).

5.1.3 Impact of uptake of IFRS for SMEs on financial performance

The fourth objective of this study was to establish the impact of uptake of IFRS for SMEs on financial performance. In response to the objective, the study revealed a significant positive relationship between SMEs that has fully adopted IFRS for SMEs and profitability whilst a negative relationship was obtained for those that have partially or not adopted IFRS for SMEs and profitability.

5.1.4 Strategies to be employed to improve the adoption of IFRS for SMEs.

The last objective of the study was to unravel strategies to be employed to improve the adoption of IFRS for SMEs. In answering the research objective, the study unearthed six strategies. The top six strategies as ranked by respondents include training of SMEs through

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SEDCO, vocational centres and tertiary institutions(1), ICAZ and PAAB has to embark on a nationwide campaign to encourage SMEs to adopt IFRS for SMEs(2), SME owners or managers need to encourage their accounting officers to further train and retrain with accounting bodies like ICSAZ, ACCA, ICAWALEs and SAAA(3), seminars by the Ministry of SMEs emphasizing the importance to SMEs of producing their accounts based on IFRS for SMEs(4), banks and Micro finance firms are required encourage SMEs to maintain full records adhering to IFRS for SME standard(5) and outsourcing of accounting services from fully trained accounting firms for production of their final accounts(6).

5.2 Recommendations

Guided by the above conclusions, the following recommendations are made:

5.2.1 Reasons for adoption of IFRS for SMEs

1. The SME owners are encouraged to adopt IFRS for SMES to enjoy multiple benefits which entail production of high-quality financial statements useful in facilitating sound economic financial decisions
2. SME owners are also recommended to adopt IFRS for SMEs to promote production of comparable financial statements and enhance their chances of accessing credit finance.

5.2.2 Challenges faced by SMEs in their attempts to adopt the IFRS for SMEs

1. SME owners are recommended to hire recent university graduates that are not very expensive but are knowledgeable of multiple accounting standards including the IFRS for SMEs.
2. The ministry of SMEs is recommended to avail funding to cater for training resources and training needs of accounting officers of SMEs given the background that SMEs are the vital engines of the economy of Zimbabwe and the need to cover the accounting officers training deficiency.
3. Accounting bodies that include PAAB, ICAZ and ICSAZ are all recommended to join hands provide all the necessary accounting training support required to fully adopt IFRS for SMEs.

5.2.3 Impact of uptake of IFRS for SMEs on financial performance

- ❖ Given the significant positive influence of level of uptake of IFRS for SMEs on profitability, the study recommends all SME owners in the manufacturing sector of Harare to fully adopt the IFRS for SMEs in order to milk all the benefits attributable to full adoption of the standard.

5.2.4 Strategies to be employed to improve the adoption of IFRS for SMEs.

1. The study recommends accounting officers of SMEs to undergo extensive accounting training specifically on the area of IFRS for SMEs.
2. Provision of training resources required on imparting knowledge of IFRS for SMEs by ICAZ is required.
3. The ministry of SMEs and other regulatory agencies or authorities like SEDCO needs to conduct regular surveys on SMEs to solicit from them the best strategies to use to improve adoption of IFRS for SMEs and to identify challenges faced and ascertain how best can the government resolve each of the problem raised.

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5.3 Suggestions for further studies

This research focused on adoption of IFRS for SMEs by manufacturing firms in Harare. Future researchers may focus on adoption of IFRS for SMEs in other sectors like retail, mining and agriculture and compare the results. Future researchers may also consider impact of level of uptake of IFRS for SMEs on financial performance as measured by liquidity or gearing or efficiency other than profitability that has been used by this study. A similar study may also be replicated in foreign countries like Zambia, Mozambique and Malawi and the results can then be compared.

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