ENABLERS AND INHIBITORS OF IFRS FOR SMEs' ADOPTION IN UGANDA

REPORT

TO

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

BY

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SMEs	Small and Medium Enterprises
UIA	Uganda Investment Authority
ICPAU	Institute of Certified Public Accountants of Uganda
IASB	International Accounting Standards Board
IFRSs for SMEs	International Financial Reporting Standards for Small and Medium Enterprises
EU	European Union
CLERP	Corporate Law Economic Reform Program
UNCTAD	United Nations Conference on Trade and Development
IFAC	International Federation of Accountants Committee
FDIs	Foreign Direct Investments
POA	Public Oversight Agency
CFS	Cash Flow Statements
IMF	International Monetary Fund
SEM	Structural Equation Modeling

Abstract

The adoption of IFRS for SMEs is both a global and national initiative intended to improve the quality of financial reports for SMEs. Unfortunately, the quality of financial reports produced by SMEs in Uganda is below expectations, yet such institutions are mandated by ICPAU to report following IFRS for SMEs. Globally, Uganda is reported as one of the Jurisdictions that report following IFRS for SMES based on the adoption position of ICPAU. However, no study has been conducted to assess the in-country adoption level and the factors that foster or hinder adoption. This study assessed the IFRSs for SMEs adoption level and adoption enablers and inhibitors. Using a cross sectional survey design data was collected from 398 SMEs in Kampala and Mbarara Districts. Questionnaires, interview schedules, and a document checklist were used to collect data. The collected data was from different sources was triangulated to generate a comprehensive view of the findings. The results reveal low adoption levels with a full IFRS for SMEs adoption level of 35%, partial adoption of 54% and non-adoption of 11%. Also, the disclosure levels for the entities that have adopted IFRS for SME are below expectations with a disclosure index of 76%. Further, the logistic regression showed that inhibitors and size have significant (inhibitors, $p = 0.049$; size, $p = 0.012$) influence on IFRS for SME adoption level. Also size was found to have a mediation effect on the relationship between adoption inhibitors and the adoption level. Clearly, deliberate efforts should be made by the key stakeholders by demystifying the adoption inhibitors in consideration of the entity size.

CHAPTER ONE: INTRODUCTION

1. Introduction

This study examined IFRS for SMEs adoption level as influenced by adoption enablers and inhibitors in Uganda. Adoption enablers are factors that attract SMEs to report following IFRS for SMEs. In contrast, inhibitors are factors that hinder SMEs from adopting IFRS for SEMs. According to the Institute of Certified Public Accountants of Uganda (ICPAU), SMEs in Uganda are mandated to report following IFRSs for SMEs since January 1st, 2010 (ICPAU, 2009). This was a result of the many challenges that such entities faced while adopting full IFRS in financial reporting and the poor-quality financial reports that most entities in that category generate.

The IFRSs for SMEs is a set of financial reporting standards elaborated to address the reporting needs and capabilities of SMEs. Generally, SMEs are characterized by inability to use stock exchange markets, high dependency on commercial banks to source funding and having a fluid distinction between ownership and management. With such characteristics, it was so challenging for SMEs to report following the main stream International Accounting Standards /IFRS.

SMEs need high quality, easily understandable, objective and comparable financial reports to enhance decisions making, productivity, and to facilitate market access. The establishment of an active SMEs sector and the effective utilization of quality financial reports have been identified as crucial in attaining long-term and sustainable economic growth (Gordon et al. 2012, Riva & Salotti, 2015). Indeed, a survey conducted by Muinde (2013) in Kenya indicated a strong positive relationship between financial reporting and the financial performance of SMEs.

This report explains the background of IFRS for SMEs adoption, the financial reporting problem, justification of the study, theoretical roots, empirical studies, methodology, findings and study implications.

1.1Background on IFRS for SMEs adoption

The International Accounting Standards Board (IASB) published a set of International Financial Reporting Standard (IFRS) designed for use by SMEs on 9th July, 2009. In the Institute of Certified Public Accountants of Uganda (ICPAU) implementation guidelines for IFRS for SMEs, it was stated that the IFRS for SMEs is effective in Uganda for financial statements covering

periods beginning on or after 1 January 2010. Consequently, all entities that are not publicly accountable and prepare general purpose financial statements are permitted to apply IFRS for SMEs. To clarify on who should adopt the framework, the Institute defined SMEs in terms of accountability obligations as an entity that does not have public accountability and publishes general purpose financial statements for external users. Though the definition is so general, it serves as a guide to identify entities that are eligible to report following IFRS for SMEs. Indeed, Uganda is reported as one of the 63 jurisdictions that adopted IFRS for SMEs without modifications (IFRS Foundation, 2016). Globally, the number of jurisdictions adopting IFRS for SMEs is increasing (Kaya & Koch, 2015).

In the European Union (EU) over 90% of the enterprises are SMEs (Kaya &Koch 2015) and the IFRS for SMEs adoption level is fairly high. In Africa SMEs are viewed as key drivers of economic and social development (Kiraka et al., 2013). In most developing countries, SMEs constitute the vast majority of firms, generating a substantial share of both overall employment and output (Nichter and Goldmark, 2005).In Uganda specifically SMEs are important contributors to employment and income generation. For instance, Small enterprises in Uganda employ 90 percent of the active non-farming population. At least one third of the Ugandan population is in entrepreneurial activities. Unfortunately, the SMEs are growing at a very low rate and one of the reasons coined down is poor financial reporting (Turyahebwa et al., 2013). Most accounting regulatory regimes recognize the need to differentiate between larger and smaller and between listed and unlisted entities (IASB, 2016). Recognizing the burdens placed upon smaller entities, many countries exempt smaller entities from statutory audits and subject them to differential financial reporting. There are some incisive arguments supporting the need for relaxing financial reporting requirements for SMEs, the arguments in support for this are based on the needs of the users of the reports, disclosures that may not be necessary, and the purpose for which the financial reports are prepared.

1.2 The Problem

The IFRS foundation (2018) spearheaded the development of IFRS for SMEs with the objective of helping SMEs produce reliable, understandable, objective, comparable and timely financial reports. Unfortunately, this objective is not yet achieved in Uganda since most SMEs produce

reports that are incomplete and untimely (Uganda Government Annual Performance Report 2017/18). Uganda is reported as one of the Jurisdictions that report following IFRS for SMEs based on the adoption position of ICPAU. Unfortunately, no study has been conducted to assess the in-country adoption level and the factors that foster or hinder adoption. This study assessed the IFRSs for SMEs adoption level and adoption enablers and inhibitors.

1.3 Objectives

This study is set out to examine the IFRS for SMEs adoption enablers and inhibitors in Uganda.

Specific objectives

1. Assess the adoption level by SMEs of IFRS for SMEs in Kampala & Mbarara Districts.
2. Examine enablers for IFRS for SMEs adoption by SMEs Kampala & Mbarara Districts.
3. Analyse IFRS for SMEs adoption inhibitors in Kampala & Mbarara Districts.
4. Assess the influence of adoption enablers & inhibitors on the adoption level.
5. Examine the mediation effect of entity size on the relationship between adoption factors and the adoption level.

1.4 Justification of the study

The results of this study complement existing literature on examining the adoption level by SMEs of IFRS for SMEs and the factors that influence adoption levels. Prior literature has limited its focus to national adoption status which is commonly based in the position of the national accounting regulator on whether or not the country has adopted IFRS for SMEs (Hope et al. 2006, Ramanna, and Sletten, 2011, Kaya &Kosh, 2015). No study has been conducted in Uganda to assess the adoption level and the factors that foster or inhibit adoption.

The results of this study will be used to educate ICPAU, members of Uganda Small Scale Industries Association, Uganda Investment Authority, accountants, Office of the Auditor general, members of the Private Sector Foundation, and researchers in financial reporting on the current IFRS for SMEs adoption level and the factors that significantly influence the adoption level. This information will influence accounting reporting regulatory policies and strategies for Small and Medium Enterprises.

1.5 Conceptual scope

The framework in figure one shows the influence of adoption enablers and inhibitors on the decision to adopt IFRS for SMEs. Also the mediating effect of entity size on the link between adoption enablers and inhibitors and the adoption decision has been analysed.

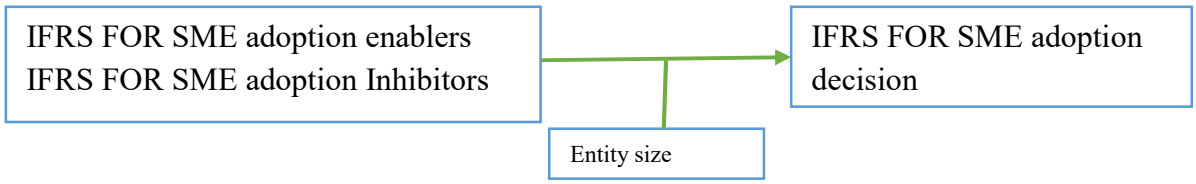

Figure 1 The conceptual framework of IFRS for SMEs' adoption enablers and inhibitors

Source: Hai, 2015 as modified by the researchers.

As already indicated, the study is analysing adoption enablers and inhibitors. The dimensions for the adoption enablers used for the study are: enhanced comparability, transparency, understandability, improved quality of financial decisions, sourcing extra funding, and reduced financial reporting costs. For inhibitors, the following dimensions were used: external consultation costs, account preparation costs, const of hiring competent personnel, regulatory compliance costs, adoption monitoring costs and exposure of the entity financial secrets. Finally, the adoption decision is examined at three levels; full, partial and non-compliance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter analyses the theoretical underpinnings of accounting regulation and reporting and related literature on the Adoption of IFRS for SMEs. Related literature is also examined on the level of adoption, factors that influence SMEs decision to adopt IFRS for SMEs and the link between the adoption level and adoption factors.

2.2 Theoretical framework on public interest and positive accounting

For this study, the two theories that are most relevant to financial reporting and adoption of IFRS for SMEs are public interest and positive accounting.

Public interest theory

The theory has no clear origin but can be traced to the works of Pigou in 1902 as explained by Kumekawa (2017) who related his works to externalities and welfare economics. According to the theory, regulation is assumed to benefit stakeholders by balancing regulatory costs and benefits. Under the Public Interest Theory, regulation is a socially efficient response to market failures such as natural monopoly, externalities, information asymmetries, and excess competition. Kothari et al. (2010) argue that information asymmetries are particularly relevant to justify financial disclosure regulation, but less compelling in justifying regulation of GAAP. The authors emphasize that accounting information has the feature of a public good.

In order to meet the informational demands of different parties, the government-regulated supply of accounting information has been deemed necessary, which is most likely to result in efficient contracting. Since as a nation, Uganda does not have National Accounting standards, International standards would serve as the most appropriate option. Adopting a set of internationally acceptable accounting standards can serve the public interest by enhancing the credibility of accounting information to external parties and also internally to firms' managers. The major gap with the theory in the context of Uganda is the limited participation of SMEs on the stock exchange market and thus limited information demands from stakeholders.

The positive accounting Theory

The theory was initiated by Ross in 1978 and improved by Watts and Zimmerman in 1986. It has two perspectives that are central to this study; the efficiency and opportunistic perspectives. The efficiency view explains how managers choose accounting methods that show a true representation of the firm's performance. The opportunistic view on the other hand, portrays managers as agents of the principal who act in their self-interest. Thus managers adopt accounting policies that allow them gain in the view that the firm also gains. Consequently, the disclosure level of the SMEs will depend on the blend between the efficiency and opportunistic perspectives.

The theoretical framework analysed focuses more on the interests of stakeholders in financial reporting. The theories don't integrate the factors that influence disclosure levels and adoption of an accounting regulation. This study has made a contribution in this area.

2.3 IFRs for SMEs adoption decision and level

A decision whether or not to adopt IFRS for SMEs is based on awareness of the standard and the likely adoption enablers and inhibitors. A study by Fortuin (2011) found out that many businesses still do not understand the options available and how IFRS for SMEs interplay to their benefit. Lack of understanding implies that SMEs cannot assess the adoption enablers and inhibitors. Also, the results of the survey by Deloitte in 2012 revealed that 43% of SME respondents were not aware of the IASB's standard IFRS for SMEs.

The need for a separate standard set for SMEs and usability of the IFRS for SMEs for micro-sized entities were explored by prior research. For instance, Bunea *et al.* (2012) investigated the views of the accounting professionals about the IFRS for SMEs in Romania. Their findings showed that a significant percentage of the respondents suggest more simplification on the current reporting system for a group of entities which will be determined according to criteria, such as turnover, number of employees, and total assets.

The findings of the study by Kilic et al. (2014) show that most of the accounting professionals are aware of IFRS for SMEs adoption process; have a moderate information level of IFRS for SMEs; are optimistic regarding the adoption process; and attended trainings about IFRS for

SMEs. Although the majority of the accounting professionals made some preparation for the IFRS for SMEs, there still is a considerable number of participants who did not.

Adoption level

According to the report of Deloitte Touche (2016), the level of adoption of IFRS for SMEs was still low where only 18 African countries (34%) have shown plans to adopt IFRS for SMEs. In fact showing plans to adopt and adopting the standards are two different things.

Ramanna and Sletten (2009), studied 102 non-European countries in order to establish the various reasons why IFRS for SMEs should or should not be adopted. The study was performed over the period from 2002 – 2007. They used the economic theory of networks to tests whether IFRS for SMEs is likely to be adopted by a country or other country located geographically around it, & its trade partners. They found out that "adopting a set of standards like IFRS for SMEs can be more appealing to a country if other countries around and other trade partners have adopted it as well". The results of their research reflected that the decision of a country to adopt IFRS for SMEs increases when the number of IFRS for SMEs adopters in its geographical surroundings (Ramanna and Sletten, 2009).

According to Kaya and Pillhofer (2013), in non-EU countries, it is expected that supranational forces are less prevalent. Voluntary adoption of IFRS for SMEs is taken basing on three main advantages compared to mandatory adoption: First, voluntary adoption leaves it up to the individual firm to decide whether IFRS for SMEs is the set of accounting standards that best fits its specific needs. This is particularly important within the heterogeneous group of private firms where cost-benefit trade-offs of applying International Accounting Standards are likely to differ across firms. Second, as a consequence, economic and political costs are likely to be lower when permitting rather than mandating IFRS for SMEs. Third, voluntary adoption would lead to a more balanced situation in the universe of accounting standards (Sunder 2002 and 2011, Kothari et al. 2010).

2.4 Adoption enablers and SMEs' adoption decision

A number of attractions were coined down for SMEs to adopt IFRSs for SMEs. The IASB (2009) listed the following attractions: (i) attracting financial institutions to offer credit to SMEs. (ii) building the confidence of suppliers on the quality of information reported. (iii) facilitating credit rating for SMEs using a uniformly generated financial information database. (iv) availing overseas suppliers with credible financial information to assess the prospects of a feasible long-term business relationship; (v) attracting venture capital investors in SMEs from other countries; and (vi) for SMEs where ownership and management are separate, adoption of the standards would give owners confidence in the reported financial figures.

Another attraction was comparability of financial statements generated by SMEs. The comparison of financial statements from different organizations was difficult where the organizations used to report on different bases. If SMEs adopt a common reporting standard it would ease comparability of financial performance and position that is so central to decision making.

Another attraction is that of reducing financial reporting costs. With a single set of quality financial reporting standards for SMEs the exercise of having to translate financial statements to a basis that can be understood by a potential investor is eliminated and the corresponding costs. Adopting IFRS for SMEs then becomes more attractive to countries and organizations seeking foreign direct investment. This was supported by Kanu et al. (2014) who noted that if SMEs adopt IFRS for SMEs, reporting costs would be minimized.

The prior findings presented the perceived advantages of the IFRS for SMEs as enhanced comparability, reliability, and transparency of financial statements (Siam & Rahahleh, 2010; Albu *et al.*, 2013; Uyar & Güngörmüş, 2013; Kılıç *et al.*, (2014). Also, Kılıç *et al.*, (2014) and Uyar & Güngörmüş, (2013) identified effective financial reporting and increase in accessing to national and international financial sources as attractions to adopting IFRS for SMEs.

2.5 Adoption inhibitors and SMEs' adoption decision

There are a number of factors that block SMEs from reporting following IFRS for SMEs.

One of the inhibitors is failure by key stakeholders in SMEs to use financial reports to make decisions. This mainly applies to the owners who are more interested in the cash remittances and

payments. A survey by Hoxha (2014) revealed that owners of small entities hardly use financial statements to make business decisions instead they rely on daily activity data records. The study also reveals that the reason financial statements are prepared is basically for tax purposes. Eiere et al. (2011) conducted a study and concluded that opponents of IFRS for SMEs stress the complexity of the standard for small firms and point out the limited relevance only for companies engaged in international trade activities.

Another challenge is limited awareness of IFRS for SMEs. A study by Kanu et al. (2014) highlights adoption challenges of limited awareness of IFRS for SMEs in Nigeria. The awareness challenges were related to failure by SMEs to get information about the standards and even for those with such information, failure to comprehend and utilize it to prepare reports.

The cost of producing financial accounting information using IFRS for SMEs is another challenge. The costs include those related to producing the financial reports either from within the entity or by hiring an accountant to do the work, the cost of printing and publishing the information and the cost of seeking an independent view on whether the information reported is true and fair. Another category of costs is the opportunity cost of preparing the financial reports since managers divert limited resources to prepare such information (Kaya & Pillhofer, 2013). Also there is a potential cost of disclosing information to a competitor & finally, there is the cost of complying with the legal requirements. It is worth noting that most of these costs don't vary with the size of the entity. Thus smaller entities have to suffer the burden of reporting following the recommended regulatory framework.

According to Albu et al. (2010) and Mazhindu and Mafuba (2013), a key factor that influences adoption levels of IFRS for SMEs in Africa is not so much an inability to adopt IFRS for SMEs, but rather the ability to enforce the adoption of IFRS for SMEs, which results into higher quality financial reporting. Indeed, the researchers emphasize that few countries in Africa can afford to enforce the standards due to limited systems, structures and resources that may be required. Adoption of IFRS for SMEs in African countries inevitably requires a legislative change in law to adjust tax and company law to a new set of accounting standards (Bertoni and DeRosa 2010). Alternatively, firms have to prepare two sets of accounts, one for regulatory purposes (Local

GAAP) and one for serving information needs of a broad group of company outsiders (IFRS for SMEs) (Zülch et al. 2011). Therefore, countries with their own local GAAP as the primary set of accounting standards are less likely to adopt IFRS for SMEs. In addition, it is expected that influential lobbying groups like auditors and national standard setters will be likely to be biased against internationally developed standards because these institutions fear the loss of their influence over accounting standard setting to the IASB.

Another adoption inhibitor is the ability to hire accountants with appropriate competences to prepare the financial reports following IFRS for SMEs. Professional accountants are usually expensive to hire and few SMEs can afford them. Hope et al. (2006) argue that few SMEs have the potential to pay reasonably professional accountants who would facilitate the preparation of financial reports.

Studies also document that strict enforcement mechanisms are necessary to benefit from IFRS for SMEs adoption (Daske et al. 2008, Leuz 2010). Thus, it is not clear that IFRS for SMEs adoption per say increases accounting quality and comparability (Kaya and Pillhofer 2013).

Other adoption inhibitors includes lack of trained personnel (Uyar & Güngörmüş, 2013; Kılıç *et al.*, 2014), difficulty in understanding the complex and detailed nature of standards (Quagli & Paoloni, 2012; Kılıç *et al.*, 2014), costly adoption process (Kılıç *et al.*, 2014), costs arising from possible duplication of reporting (Albu *et al.*, 2013), and training costs (Albu *et al.*, 2013).

The mediation influence of size on IFRS for SMEs adoption decision

Regarding this issue, Albu (2013) investigated whether the size is relevant in determining the scope of the IFRS for SMEs in Romania. The findings of the study denoted that using only size as a criterion for setting the scope of the IFRS for SMEs may cause the exemption of a significant number of companies and therefore may lead to compliance issues. An earlier study by Brigitte and Axel (2009) examined empirically the influence of size on the suitability of IFRS for SMEs in Germany. The results indicated that entity size is only significant if the organization has international exposure. Also, for size to be significant there should be a separation between management and ownership. Finally, the researchers concluded that a

number of small enterprises are not interested in having international comparisions of their entities. Though the researchers attempted to study the effect size on adoption suitability; no study has assessed its mediation influence on the relationship between adoption factors and adoption decision.

Conclusion

Generally, from the literature, it is clear that there are some efforts in adoption of IFRS for SMEs both by International standard setters, National accounting regulators, and individual organizations in both developed and developing countries. Indeed, there are adoption attractions and inhibitors as explained in this chapter. What is not clear from literate is where the attractions are more influential in the SME's decision to adopt or the inhibitors. Also, there have been no clear study on adoption of IFRS for SMEs in Uganda, yet there are many SMEs and a number of them involved in Uganda in Foreign Direct Investments (FDIs). This study therefore covered this gap by enablers and inhibitors of IFRS for SMEs in Uganda.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter explains the approaches that were used to get information on the research issue. It comprises of the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods and instruments, procedure of data collection, data analysis and measurement of variables. It also indicated the problems anticipated in the study.

3.2 Research design

The study adopted a cross-sectional survey design (Kothari, 2004) aimed at examining IFRS for SMEs adoption enablers and inhibitors in Uganda. Facts for the study were established from randomly selected business players of SMEs in Kampala and Mbarara Districts. This research design that was adopted is a critical humanism paradigm which considers the people studied in the research process. In line with Briggs (2009) and Asika (1991), such design is used mainly in business and social science research where the researcher aims at describing the current state of affairs with no effort to control and/or manipulate the variables under the study. Using this design, the researchers employed various forms of enquiry to ascertain the state of affairs as guided by Kothari (2004).

The unit of analysis was the SME while the unit of inquiry comprised of the people responsible for drawing financial reports of SMEs, professional accountants, and technical people at the Institute of Certified Public Accountants (ICPAU). The source of data for the study was both secondary and primary. The secondary sources included the financial reports of the SMEs while primary sources constituted responses from questionnaires and interviews.

3.3 The Sample

There is no universally agreed definition of SMEs (Kayanula &Quarty 1999, Quartey 2001, Manuel, 2002). Definitions range from those based on the number of employees to those based on Business turnover and assets. Even in those various categories definitions vary from country to country depending on the size of the economy & purpose of the definition.

In Uganda, as is the case elsewhere in the world there is currently no nationally agreed definition for SMEs, the Uganda Investment Authority (2008) adopted the definition of a 'Micro Enterprise' as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. On the other hand, Small Enterprises employ between 5 and 49 and have total assets between UGX: 10 million but not exceeding 100 million. The Medium Enterprise therefore, employs between 50 and 100 with total assets more than 100 million but not exceeding 360 million.

For the purposes of this study, the definition of an SME by Uganda Investment Authority was considered based on the number of employees that are between 5 and 100.

The names and addresses of 4,165 SMEs that meet the above criteria were obtained from the town clerks of Nakawa, Makindye, Lubaga, Kawempe and Central divisions of Kampala City Council; and Mbarara District. The obtained database of the list of licensed organisations enabled the researchers cluster the organisations according to their industries in form of Service, Retail, Manufacturing, Construction and Real estate. Four hundred and ten (470) businesses were selected at random from the list and questionnaires distributed to them. However, 398 questionnaires were collected back, making an effective response rate was 84.6%.

3.4 Measurement of Variables

IFRS for SMEs Adoption decision

IFRS for SMEs adoption decision was measured using: (i) accounting disclosure level (disclosure) and (ii) adoption level. To measure the disclosure level, respondents were asked to state whether they complied with specific applicable standards. The responses were categorized into three possible configurations: (i) meet the disclosure required by the standard; (ii) does not meet the disclosure required by the standard; or (iii) does not apply (N/A), because there is no need for disclosure in certain accounts of certain companies. A disclosure index was then calculated based on the number of standards complied with out of the total applicable standards. A similar technique has been previously used by Lopes and Rodrigues (2007).

To measure adoption of International Accounting Standard for SMES, a binary variable, which has a value one (1), if the company fully complies with the IFRS for SMEs, 2 if it partially complies and zero (0), otherwise was used.

3.5 Adoption enablers & inhibitors

The research variables of enablers and inhibitors were measured using items adapted from previously used scales. The items were measured by five-point Likert scales ranging from "strongly disagree" to "strongly agree." Six items were used to measure enablers, namely: enhanced comparability, transparency, understandability, improved quality of financial decisions, sourcing extra funding, and reduced financial reporting costs. For inhibitors, also six dimensions were used: external consultation costs, account preparation costs, const of hiring competent personnel, regulatory compliance costs, accounting systems costs and exposure of the entity financial secrets.

Data Collection Procedure

Data collection was conducted in two phases: a pilot study and a main study. Data was collected from preparers of annual financial reports using a questionnaire. To qualify to respond to the questionnaire, the respondent had to be a preparer of financial reports and familiar with financial reporting standards. The questionnaire required the preparers' perceptions on whether the firm fully complied with all applicable IFRS for SMEs and the extent of compliance. The questions also required the respondents to answer on a five-point Likert-scale the extent to which they agreed or disagreed with IFRS for SMEs adoption enablers and inhibitors. On this scale, a score of 5 or 4 indicated strong agreement with the enabler or inhibitor while a score of 3 or 2 indicated that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that they strongly disagreed with the enabler or inhibitor item. Similar scales have been used by Schipper (2010) and were found suitable. To obtain a score for these questions, the mean score was calculated.

A pilot-study was carried out in Wakiso Municipality, because firms in the municipality had similar characteristics with those of Kampala District. Thirty (30) SMEs were randomly selected from the municipality business database provided by the town clerk to pretest the questionnaires. The questionnaires were administered to preparers of financial statements. Interviews were also

conducted with four preparers to determine whether there were any problems with the questionnaire. Based on feedback from these preparers, very minor modifications were made to the questionnaire for the next phase of data collection. Responses from the pilot-study were not included in the final study.

In the main survey phase, questionnaires were delivered to the preparers of each of the small and medium sized businesses in the survey sample. The package contained a covering letter explaining the purpose of the survey and a questionnaire. The respondents were assured of the confidentiality of their responses.

3.6 Instrument Reliability and Validation

The reliability or internal consistency was assessed using Cronbach's Alpha coefficient. As shown in Table 1, all the reliability coefficients were above 0.70, a cutoff recommended by Nunnally (1978, p. 245).

Table 1 Reliability

Variable	No. of items	Cronbach Alpha
Adoption decision	24	0.951
Enablers	6	0.757
Inhibitors	6	0.864

Construct validity being the extent to which a particular item relates to other items measuring the same variable was examined using factor analysis. All the factor loadings were greater than the cutoff point of 0.50, recommended by Nunnally (1978, p. 245)

Factor Analysis of Research Variables

Table 2 Rotated Component Matrix of Enablers

Enabler statement	Enablers	
	Quality of financial reports	Cost saving
Increased comparability of our financial reports with those of similar organizations.	.827	
Improved quality of financial reporting for your organization.	.822	
Increased financial reporting transparency& understandability of information of our business affairs	.819	
Enhanced understandability of information of our business affairs.	.821	
Improved the decision usefulness of financial reporting.	.719	
Adoption of IFRS makes it easy for the entity to access external funding	.695	
Adoption of IFRS reduces costs of extra financial reporting requirements (e.g., reporting to Uganda Revenue Authority).		.888
Adoption of IFRS reduces costs of obtaining extra financing from banks and other financial institutions.		.837
Adoption of IFRS has legal relevance for taxation		.790
Adoption of IFRS results in reduced costs of financial analysis which our organization performs		.559

Table 3 Component Matrix of inhibitors

Inhibitor statement	Score
The costs of External consultation is high	.805
The other operating costs associated with adopting IFMS for SMEs are high	.770
The cost of collecting additional data to ensure that transactions comply with IFRS for SMEs is high.	.704
The cost of regulatory compliance	.642
High adoption monitoring costs	.752
Loss of financial competitive information	
Internal personnel/employee cost are high	.631

In this study, the items measuring these two closely related dimensions were combined into a single variable. For subsequent statistical analysis, the score for each composite research variable was the aggregate of a respondent's scores for items defined to measure that variable.

3.7 Data Analysis

Data analysis was performed using SPSS software version 21. Analysis of research questions was performed using descriptive and inferential statistics. Descriptive statistics was used to measure the level of adoption and level of disclosure. Inferential statistics was used using multiple regression to assess the influence of adoption enablers and inhibitors on the adoption level. relationship between the dependent and independent variables.

CHAPTER FOUR: STUDY RESULTS, DISCUSSIONS & IMPLICATIONS

4.1 Introduction

This section first presents firm characteristics and descriptive analysis for IFRS for SMEs adoption enablers, inhibitors and adoption level. After descriptive statistics, regression results are stated. There after results are discussed stating the study policy implications.

Characteristics of the SMEs

The firm characteristics are given in terms of position of respondent, the firm's registration status, and the industry of the firm. Also, the characteristics of age and size are presented in the analysis of the adoption level.

Table 4Firm Characteristics

Attribute		FC	PC	NC	Total	% Total
Position of respondent in the organization:	Proprietor/Partner	1	14	17	32	8%
	Manager	15	44	10	69	17%
	Accountant	42	102	7	151	38%
	Consultant	69	24	3	96	24%
	Others	14	29	7	50	13%
Firm's registration status	Not registered	5	2	5	12	3%
	Sole proprietorship	1	6	13	20	5%
	Partnership	15	38	7	60	15%
	Private limited company	119	163	16	298	75%
	NGO	1	4	3	8	2%
Industry of the firm	Service	55	148	26	55	58%
	Retail	54	16	12	54	21%
	Manufacturing	15	23	3	15	10%
	Construction	15	24	2	15	10%
	Real estate	2	2	1	2	1%
Total		**141**	**213**	**44**	**398**	

Key: FC= Full Compliance; PC = Partial Compliance; NC = Non-Compliance

The results in table 4 indicate that majority (38% and 24%) of the respondents from the firms used in the study were accountants and consultants respectively. The same results show that most firms in the study were private limited companies (75%) mainly from service (75%) and retail (21%) sub-sectors. When registration status is considered, the results reveal that 86% of firms that have fully adopted are limited liability companies while 67% of those that do not comply are either unregistered, sole proprietor owned or partnerships.

4.2 Descriptive Statistics on adoption & disclosure levels

IFRS for SMEs adaptation status

The adoption status as indicated in table 5 is given in terms of those that have fully adopted all the IFRS for SMEs, those firms that have adopted some of them and those that have not adopted the standards yet. The results indicate that 35% of the firms had fully adopted the standards, 54% partially adopted and 11% had not adopted the standards. This clearly indicated that the full adoption level is still low. Indeed, the percentage for partial adopters (54%) is high yet it is a crucial segment. Commonly in the auditor's report it is indicated that such SMEs report following IFRS for SMEs, yet on critical scrutiny on treatment of some accounting items it is not the case. Such reports can be highly misleading to users.

Table 5General adoption level based on adoption status

STATUS	Freq.	%
Full adoption	141	35%
Partial adoption	213	54%
Not adopted	44	11%
Total	398	100

The researchers, thus, used information disclosed in the financial reports to re-classify adoption into two categories; non-adopters and adopters. All the firms that had indicated partial adoption had in essence not adopted the standards. Thus 89% of the firms had not fully adopted IFRS for SME; though of these, 54% had partially adopted the standards.

Table 6: General adoption status and age of the entity

		Full adoption	Partial adoption	Non adoption	Total	Total (%)
Age of firm	Less than 1 year	1	6	13	20	5%
	1 – 5 years	26	46	15	87	22%
	Above 5 - 10 years	32	124	11	167	42%
	above 10 years	82	37	5	124	31%
Total		**141**	**213**	**44**	**398**	**100%**

Information in table 6, indicates that the biggest percentage (73%) of SMEs used in the study were above five years old. Considering the adoption levels, 58% percent of firms that had fully adopted IFRS for SMEs are over ten years old while 64 percent of the companies that have not adopted are five years and less old.

Table 6 General adoption status based on firm size of the entity

		Full adoption	Partial adoption	Non adoption	Total	Total %
Number of employees	5 – 25	22	40	30	92	23%
	26 – 49	24	70	11	105	26%
	50 – 80	49	93	2	144	36%
	81-100	46	10	1	57	14%
Total		**141**	**213**	**44**	**398**	

The size of the selected SMEs is fairly well spread across the different age ranges with the highest score (36%) in the range of 50 to 80 years of existence and the lowest (14%) for SMEs that have existed for over 80 years. Analysing size in the context of adoption status, most firms that have fully adopted IFRS for SMEs employ more than 50 people. These are comparatively medium organisations. Interviews with some accountants indicated that the fairly big SMEs have many stakeholders to report to most of whom demand use of a credible accounting standards. One accountant explained; *"the owners of this company know what they want and they set profit targets for me. They have confidence in the IFRS for SMEs, thus resolved that we report following such standards so that they can have confidence in the reported financial results*". Also, another respondent to the interview emphasized that, *"the SMEs whose books I have audited follow IFRS for SMEs with some not fully compliant to the provisions of the standard on some aspects impairment of assets, provisions for contingent liabilities and accounting for Agriculture."*

IFRS for SMEs disclosure levels

IFRS for SMEs adoption for the firms that were analysed as having adopted the standard were further examined by assessing the disclosure levels of the firms on five financial reporting issues. The reporting issues are presentation of financial reports, property, plant and equipment, intangible assets, inventory and financial assets. The disclosure levels for each component and the overall index are indicated in table 7.

Table 7 Disclosure Level

	N	Minimum	Maximum	Mean	Std. Deviation
Disclosure Index	398	.00	1.00	.7643	.27951

Reporting item	Disclosure level (%)
Financial reports	97
Property, Plant and Equipment	94
Intangible assets	52
Inventory	83
Financial assets	58

The disclosure levels for the five sampled items differ. Most SME have high disclosure levels for financial reports (97%) and property, plant and equipment (94%). Intangible assets (52%) and Financial assets (58%). This implies that preparers of financial reports of SMEs don't disclose financial information on all items as required by IFRS for SMEs

The results got indicated a mean disclosure index of 0.7643. This implies that, on average 76% of the SMEs disclose financial information as required by the IFRS for SMEs standard. However, it is important to note that a firm only qualifies to comply with IFRS for SMEs when it complies with all the applicable accounting standards.

4.3 Factors influencing IFRS for SMEs Adoption decision

The researchers categorized adoption factors into enablers and inhibitors. Six items were used to measure enablers, namely: enhanced comparability, transparency, understandability, improved quality of financial decisions, sourcing extra funding, and reduced financial reporting costs. For inhibitors, also six dimensions were used: external consultation costs, account preparation costs, const of hiring competent personnel, regulatory compliance costs, accounting systems costs and exposure of the entity financial secrets. The descriptive statistics showing the mean and standard deviation is given in table 8.

4.4 IFRS for SMEs adoption enablers

The enablers analysed included; quality of financial reports, comparability, reduced financial analysis costs, international capital inflows, ease of credit access, reduced reporting

requirements, legal relevance to taxation, decision making, transparency, easy use of accounting information systems. The results in table 9 indicate the overall mean perceptual score of adoption enablers as 4.088, which is pretty high.

Table 8IFRS for SMEs adoption Enablers

Adoption enablers	Mean	SD
Adoption of IFRS results in improved quality of financial reporting for your organization.	4.16	.606
Adoption of IFRS results in increased comparability of our financial reports	4.11	.552
Adoption of IFRS results in reduced costs of financial analysis which our organization performs	3.93	.609
Adoption of IFRS reduces costs of obtaining extra financing from banks and other financial institutions.	4.06	1.065
Adoption of IFRS has legal relevance for taxation	4.26	.814
Adoption of IFRS improves the decision usefulness of financial reporting.	4.13	.770
Adoption of IFRS increases transparency and understand ability of information of our business affairs.	4.14	.723
Adoption of IFRS makes assessment of management decisions using accounting information easy.	4.14	.632
Adoption of IFRS results in improved quality of financial reporting for your organization.	4.16	.606
Adoption of IFRS results in increased comparability of our financial reports with those of similar organizations locally and internationally.	4.11	.552
Adoption of IFRS results in reduced costs of financial analysis which our organization performs	3.93	.609
Overall	**4.088**	

n= 398

As indicated in table 8, the scores for all the listed enablers are above the grand mean of 4.088 except for reduced costs of financial statement analysis, attracting international capital flow and reduced costs of financial analysis. The results therefore suggest that SMEs assess adoption enablers favourably. The adoption enablers were categorized into two groups, namely, decision making and cost saving enablers. The results indicate a mean score of 4.083 for the decision-making enablers and 4.000 for the cost saving enablers. Consequently, both cost and decision saving enablers are critical though decision making enablers have a slightly higher weight.

The findings of the adoption enablers were examined in terms of the firms that had adopted and those that had not adopted IFRS for SMEs. The results indicate that the adopters had a mean score of adoption benefits of 3.977 while non-adopters had a score of 4.160. This implies that

non- adopters of IFRS for SMEs perceive adoption enablers as high compared to their counterparts.

4.5 IFRS for SMEs adoption inhibitor

Adoption inhibitors were assessed in terms of prohibitive staff training costs, cost of system changes, external consultation, high internal cost of accountants and operating costs associated with adopting IFRS for SMES. The results are indicated in table 9.

Table 9 IFRS for SMEs adoption inhibitors

Adoption costs	Mean	SD
The cost of training staff is prohibitive	2.94	1.310
The cost of System changes(hardware/software) is high	3.65	.807
The costs of External consultation is high	3.93	.545
Internal personnel/employee cost are high	3.66	.900
The cost of collecting additional data to ensure that transactions comply with IFRS for SMEs is high.	3.88	.638
Risk of losing financial information to competition	3.95	.556
The other operating costs associated with adopting IFRS for SMEs are high	3.84	.770
Overall	3.65	

n= 398

The results show an overall mean of 3.65 indicating the respondents perceive adoption inhibitors as high. Outstanding among the dimensions though were the costs accounting personnel, costs additional financial data as a result of the adoption and the risk of losing key financial information to competition.

4.6 Univariate analysis of adoption enablers and inhibitors

In this step, the researchers assessed if there are significant differences between the group that have adopted IFRS for SMEs (Group 1) and those that have not (Group 2). This was carried out using the T test for independent samples to examine the differences between means of enablers and inhibitors for adopters and non-adopters. The results are shown in table 10

Table 10 T-Test for adoption enablers and inhibitors

		Levene's Test for Equality of Variances					
		F	Sig.	T	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Inhibitors	Equal variances assumed	4.869	.002	-.393	.002	-.02260	.05755
	Equal variances not assumed			-.347	.003	-.02260	.06520
Enablers	Equal variances assumed	1.353	.246	.346	.729	.18280	.05483
	Equal variances not assumed			3.113	.739	.18280	.05873

The difference in means for inhibitors between adopters and non-adopters was found to be statistically significant (p= 0.00), while that for enablers was not statistically significant (p=.246). The results suggest that there was a difference in perception about inhibitors for adopters and non-adopters. However, for enablers there was no major difference between the two groups.

4.7 The influence of adoption enablers and inhibitors on IFRS for SME adoption level

One of the objectives of the study was to examine the influence of adoption enablers and inhibitors on the adoption decision of IFRS for SMEs by the SMEs. A logistic regression, taking into account both enablers and inhibitors and firm size was used. The dependent variable was analysed as a dummy variable by using the value of one (1) if the company adopts IFRS for SMEs and zero (0) otherwise.

To carry out a multivariate analysis, a binomial logistic regression model was used. This choice was motivated by two reasons: (1) the dependent variable is dichotomous, making the use of ordinary least square approach inappropriate. (2) The logistic regression model has been adopted by a number of the studies focusing on the adoption of IFRS, including Zeghal and Mhedhbi (2006).

Multicollinearity

A strong correlation between the explanatory variables may bias the estimation of variables' coefficients. To detect this problem, various tests were used. The correlation matrix based on

Pearson test determines the degree of bi-variate correlation between the explanatory variables. Variance inflation factors (VIF) were used to detect multicollinearity that decreases the reliability and accuracy of empirical results. The higher VIF means that multicollinearity effects are present. Hair, *et al.*, (2006) stated that a problem of multicollinearity is present if the factor is greater than 10. All Variance Inflation Factor (VIF) as shown in table 11 are less than 10 indicating that items had achieved multicollinearity condition of independent variables.

Table 11Variance Inflation Factors

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.662	.211		3.137	.002		
	Inhibitors	-.144	.042	-.175	-3.472	.001	.929	1.077
	Enablers	.056	.045	.064	1.247	.213	.929	1.077
a. Dependent Variable: Adoption of (IFRS) for SMEs								

4.8 Results of the multivariate logistic regression model on IFRS for SMEs determinants

Table 12presents the outcome of the logistic regression; it shows the coefficients of the logistic regression and the contribution of each explanatory variable to estimate the likelihood of IFRS for SMEs adoption by SMEs.

Specifically, the researchers tested the logistic regressions below:

LOGIT [Pi / (1 - Pi)] = ß0 + ß1 inhibitors + ß2 enablers + ε

Table 12Results of multivariate logistic regression model on IFRS for SMEs determinants

	B	Wald	P value
Inhibitors	512.806	34.677	.053
Enablers	1187.783	38.717	.997
Dependent variable: Adoption level			
Number of companies n=398 Hosmer and Lemeshow Test: Chi square (χ 2) = 7.524 ; P = 0.376 Nagelkerke's R^2= 0.586			

The logistic regression was performed to test effects of enablers and inhibitors on adoption of IFRS for SMEs. Results in table 12 indicated that the two-predictor model provided a

statistically significant improvement over the constant-only-model, $\chi 2$ (3, N= 398) = 7.524, p = .376. The Nagelkerke R2 indicated that the model accounted for 58.6% of the total variance. The Wald tests showed that inhibitors significantly predict (p=.05) adoption of IFRS for SMEs though enablers don't. Thus, SMEs do not necessarily base on adoption enablers to decide whether to adopt or not. In contrast, the adoption inhibitors are seriously considered. Follow-up interview with some owners of SMEs indicated that benefits of access to finance from commercial finance institutions is central for the decision of whether or not to adopt. However, the benefits of attracting foreign direct investment is not critical. This contradicts the conclusion drawn by Kilic (2014) that attracting foreign direct investment is a key attraction to firms to adopt IFRS for SMEs.

On the issue of adoption costs, one manager of an SME that has not adopted IFRS for SMEs commented; *"we have no problem with generating our reports following IFRS for SMEs, but you need professional accountants to do it but they are very expensive, we shall end up making loses*". An accountant of an SME that has partially adopted said; "*these SMEs cannot pay us our worth, getting a professional qualification and sustaining through membership fees are expensive investments. When they pretend to pay you, you also pretend to work*."

4.9 The effect of firm size, adoption enablers, inhibitors on adoption decision

In light of the above results, the researchers considered firm characteristics as a control variable on the decision of whether or not to adopt and the disclosure levels. The researchers included In the econometric model the size of the firm. The study therefore tested the model below

LOGIT [Pi / (1 - Pi)] = ß0 + ß1 INHIBITORS + ß2 ENABLERS+ ß3 SIZE + e

Table 13Results of the logistic regression with firm size

	B	Wald	P value
Inhibitors	432.032	15.058	0.049
Enablers	1065.853	33.625	0.978
Size	2.118	10.931	0.012
Number of companies n=398 Hosmer and Lemeshow Test: Chi square (χ 2) = 13.617 ; P = 0.092 Nagelkerke's R^2= 0.683			

The logistic regression was performed to test effects of inhibitors, enablers, and size of the firm on adoption of IFRS for SMEs. Results in table 13 indicated that the two-predictor model provided a statistically significant improvement over the constant-only-model, $\chi 2$ (3, N= 398) = 13.617, p = .092. The Nagelkerke R2 indicated that the model accounted for 68.3% of the total variance. The Wald tests showed that enablers did not significantly predict adoption of IFRS for SMEs with the (p value =0.978). However, inhibitors and size had a significant impact with the (inhibitors p value =.049 and size p value = .012) on the decision to adopt IFRS by SMEs.

Therefore, we conclude that SMEs do not base their decisions to adopt IFRS on adoption enablers per se. Interviews with the quality assurance personnel at ICPAU though indicated that SMEs may be attracted to adopt IFRS for SMEs to foster comparability of financial reports and ease of access to funding. The decision to adopt IFRS by SMEs is highly influenced by adoption inhibitors and the size of the entity. On the issue of costs, the interviews with the quality assurance team emphasised that a number of factors inhibit SMEs from adopting the IFRS for SMEs top among them are poor record keeping like incomplete records. Such financial records will require a lot of professional input thus pushing the financial reporting costs up. Another factor relates to transitional challenges from full IFRS to IFRS for SMEs. The transitional challenges are responsible for the partial adoption status for most of the SMEs.

Also size was a key factor influencing adoption. This is mainly due to the broad accountabilities to various stakeholders and affordability to sustain professional accounting services. The finding that adopt IFRS by SMEs is highly influenced by adoption inhibitors and the size of the entity agrees with the findings of Leuz (2010), Mazhindu and Mafaba (2013) indicating that the larger the company, the more it tends to adopt IFRS.

4.10 Policy implications and conclusion

The public interest theory urges that accounting information has the feature of a public good; thus the need for Government regulated supply of accounting information. Consequently, adopting the IFRS for SMEs can serve the public interest by enhancing the credibility of accounting information for SMEs to stakeholders. The results indicate that the number of SMEs in Kampala and Mbarara District that have fully adopted IFRS for SMEs is still low.

Government should therefore develop a concrete policy and support strategies to enhance adoption.

Indeed, small entities are the least attracted to adopt IFRS for SMEs. No wonder the results indicate that the size of the firm significantly influences the decision to adopt the standards. Also, adoption inhibitors especially the costs of hiring professional accountants, collecting and reporting financial data following IFRS for SMEs significantly influence the adoption level. Discussions with some members of the technical team at ICPAU revealed that the institute is aware of the personnel inhibitor and is working on boosting the training for accounting technicians who may be cheap for small entities. This intervention though does not handle the problems of the high cost of data collection and reporting. Based on the positive accounting theory that seeks to explain how managers choose accounting methods that show a true representation of the firm's performance in an efficient way, a strategic intervention is needed to help small entities adopt acceptable accounting frameworks that foster cost minimisation. ICPAU should work on having an accounting standard for small entities as suggested by Bunea *et al.* (2012) since such entities contribute to over 60% to the Nation economic activities.

Further research could on IFRS for SME adoption and the competence of accountants.
Another key area is IFRS for SMEs enforcement strategies and adoption decision

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