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Research Paper

Ethical Disclosure and Financial Performance of Savings and Credit Cooperative Societies in Kiambu County

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Abstract
Even though, corporate enterprises are founded for profit maximization and wealth creation. There is need for them to be compliant with ethical practices. Thus, the current study sought to examine the effect of ethical disclosure on financial performance of savings and credit cooperative societies in Kiambu County. Specifically, the study examined the effect of corporate ethical identity and corporate applied ethics disclosure on financial performance. The study was anchored on resources dependence theory. Correlational research design was applied and secondary data collected amongst 20 selected SACCOs from Kiambu County. Correlation and regression analysis analyzed the data. Results of the study depicted that corporate ethical identity and corporate applied ethics disclosure had positive statistically significant effect on financial performance of savings and credit cooperative societies in Kiambu County.

Key words: *Ethical disclosure, financial performance, corporate ethical identity, corporate applied ethics.*

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I. Introduction

Business enterprises are guided and mandated to comply with standard operating procedures without which there are high chances of exposing stakeholders' resources to risk. Since business enterprises operate mainly to optimize stakeholders return then there is need for compliance with ethical requirements. According to Overfelt et al. (2010) even if financial reporting does not call for reporting on all aspects there is need for voluntary dissemination of information that may reduce levels of information asymmetry in regard to ethical compliance.

Financial reporting is becoming complicated due to frequent changes of accounting procedures. Further, there is need for documentation of frequent changes on pricing of different organization aspects this may ease control and clarity of information among stakeholders (Adeleke et al., 2017). This would be in tandem with Aqel (2014) who asserts that there is need for disclosure on assets valuation and financing criterion. Lack of clarity on ethical compliance levels may raise concern amongst stakeholders and deter achievement of organization objectives (Alayemi, 2015).

Cooperative movements are savings and credit platforms in which membership is voluntary and are owned and run democratically by its membership (Njeru, 2016). These movements operations are based on openness, equality, democracy, accountability, efficiency and mutual concern. SACCOs in Kenya are broadly classified into non-withdrawable deposit taking and deposit taking savings and credit cooperative societies. Both of them mainly mobilize resources from members and lend amongst them thus they play financial intermediation role (Njeru, 2016). Despite the anticipate operating procedures there are instances in which they have failed to meet their main objectives and this begs the question on their levels of ethical compliance and if they disclose and whether ethical disclosure has effect on financial performance of SACCOs in Kiambu County. Specifically, the study was guided by the following research questions;

i. What is the effect of corporate ethical identity on financial performance of SACCOs in Kiambu County?
ii. What is the effect of corporate applied ethics on financial performance of SACCOs in Kiambu County?

II. Theoretical Review

Resource dependency theory which is commonly known as RTD basically deals with the study and evaluation of how the external resources of an organization affect the overall performance of the said organization. The performance or efficiency of both the strategic and tactical management of any organization mostly is influenced by the nature of external resources procurement (Lim, 2014). The rationale behind the argument that resource dependency plays a big role in determining the performance of the firm is basically because these resources are definitely attached to other organization. This means the procured resources are a property of another independent company. Most of commercial performance can be influenced by the quality of both executive and non-executive management who will determine the overall cost.

III. Empirical Review

Wanjau, Muturi and Ngumi (2018) investigated the influence of financial transparency on financial performance of listed companies in East Africa securities exchanges. The study hypothesized that financial policy, financial liquidity and investment policy had influence on financial performance listed companies. Correlation research design was applied and panel secondary data was collected from annual financial statements. Descriptive, regression and correlation analysis were adopted to analyze the data. Results of the study revealed positive and significant influence of financial policy, financial liquidity and investment policy on financial performance of listed companies in East Africa. It was appropriate for the study to carry out diagnostic tests prior to fitting regression model, this would have minimized likelihood of drawing biased findings. Although, these findings drew their companies amongst listed ones these findings cannot be generalized to be applicable amongst savings and credit cooperative societies which are non-listed in Kenya.

An investigation on the influence of corporate transparency disclosure on financial performance of listed in East Africa was put forth by Wanjau, Muturi and Ngumi (2018). The study hypothesed that there are four levels of voluntary disclosure which were financial, non-financial, governance and social. Rating scale was adopted from past studies whereby each disclosure was measured using dummy variables and proportionate count of all items. Descriptive, regression and correlation analysis were used to analyze the data. In addition, panel data diagnostic tests were carried out. Results of the study revealed positive and significant influence of financial, non-financial, governance and social disclosure on financial performance of listed companies in East Africa. Although, significant influence was reported it cannot be generalized to have significant moderating effect on non-listed commercial banks in Kenya. Moreover, the study had big sample hence it had lower chances of being challenged by low sample size problems. This calls for empirical enquiry amongst savings and credit cooperative societies in Kenya.

Edogbanya and Kamardin (2016) investigated the effect of company reporting transparency on firm performance in Kenya. Panel research design was adopted and panel data collected amongst listed companies for period 2010 to 2013. Due to autocorrelation and heteroskedasticity the study applied panel corrected standard errors. Results of the study revealed positive and significant influence of governance disclosure on financial performance of listed companies in Nigeria. Moreover, there was an inverse and significant influence of governance disclosure on return on assets of companies in Nigeria. Although, these findings were contrasting the study examined direct influence consequently there is need to examine moderating influence of ethical disclosure on financial performance of savings and credit cooperative societies in Kenya.

Nassreddine (2017) investigated the determinants of financial statements disclosure in Tunisia. The study deployed qualitative research design and visualized through cognitive mapping technique. The study tested the effect of industry type, firm characterised, agency theory and signaling theory. Results of the study revealed that firm characteristics, industry type, agency theory and signaling theory has influence on voluntary disclosure has influence on financial statements disclosure of listed companies. It would have been appropriate to execute the study using mixed research design so as to complement qualitative study findings. Godson, Chioma, Osemudiamen (2018) investigated determinants of accounting quality in Nigerian commercial banks. Longitudinal research design was adopted. A sample of 14 listed commercial was selected subjectively and secondary data retrieved from annual financial statements for period 2011 to 2015. Data was analysed using correlation, descriptive statistics and regression analysis. Results of the study revealed positive and significant relationship between bank size, audit size and quality of financial reporting.

IV. Methodology

The current study applied correlational research design and sourced secondary data from annual financial statements of 20 SACCOs which were purposively selected from Kiambu County. Panel data was sourced from 2015 to 2022. The study applied balanced panel data. Collected data was cleaned and analyzed using correlation and multiple regression analysis. The regression model for the study was of the form:

$Yit = \beta_0 it + \beta_1 x_{1it} + \beta_2 x_{2it} + e$

Y = dependent variable (financial performance)

β_0 = Constant Term
$\beta_1\beta_2$= coefficient of determination
x_1= Corporate Ethical identity
x_2= Corporate applied ethics
e = Error Term

V. Findings and Discussions

Correlation Analysis

Product moment correlation coefficient in Table 4.1 depicts that corporate ethical identity has positive statistically significant effect on financial performance of savings and credit cooperative societies in Kiambu County (rho = 0.542, p value < 0.05). There was a positive statistically significant effect of corporate applied ethics on financial performance of Savings and Credit cooperative societies in Kiambu County (rho = 0.641, p value < 0.05).

Table 4.1 Correlation Analysis

	1	2	3
(1) Financial Performance	1		
(2) Corporate Ethical Identity	0.542	1	
	0.000		
(3) Corporate applied Ethics	0.641	0.123	1
	0.000	0.145	

Diagnostic Tests

Several diagnostic tests that included tests for normality, heteroskedasticity, serial correlation and multicollinearity were carried out prior to modelling and findings presented as shown below.

Normality Test

Normality test of the error term was examined with the assumption that the error term of the data was normally distributed against an alternative that it was not. Findings in Table 4.2 has a p value of 0.3214 and Jarque Berra coefficient of 1.4182. This indicates that the error was normally distributed thus there was no need for data transformation.

Table 4.2 Normality Test

	Financial sustainability
Jarque-Bera	1.4182
Probability	0.3214

Lagragian Multiplier Test

Lagragian multiplier test was carried to examine the null hypothesis that there were no panel effects against an alternative that there were panel effects. Results in Table 4.3 depicts that there was enough evidence for rejection of the null hypothesis and conclusion that there were panel effects thus pooled effects model was not the most appropriate for examination on ethical disclosure on financial performance of SACCOs in Kiambu County.

Table 4.3 Lagragian Multiplier Test

	Var	Sd=sqrt (var)
Creative accounting	2.826	1.681
e	1.243	1.115
u	0.213	0.462
Chi square =9.42, p value <0.00		

Serial Correlation Test

Serial correlation test was carried to examine the relationship between current period and past period error terms. Results in Table 4.4 depicts that there was no first order serial correlation since the p value was less than 0.05 thus the null hypothesis that stated that there was no first order serial correlation was rejected.

Table 4.4 Serial Correlation Test

	F (1,4)	P value
Wooldridge test for autocorrelation	10.23	0.001

Heteroskedasticity Test

Heteroskedasticity test was carried to examine the uniformity of variance of error term of variables under examination. Results in Table 4.5 depicts that there was enough evidence to support rejection of the null hypothesis and conclusion that there was no uniformity of variance of error term since the p value was less than 0.05. Hence, the model fitted in the study had robust standard errors.

Table 4.5 Heteroskedasticity Test

	Chi square	P value
Modified Wald test	30.42	0.0000

Multicollinearity

Multicollinearity is a condition in which there is a high correlation amongst predictor variables. It was examined using variance inflation factors. Results in Table 4.6 depicts that none of the variables had variance inflation factors greater than 4. Thus, these variables were not highly correlated.

Table 4.6 Multicollinearity

	VIF
Corporate ethical identity	1.123
Corporate applied ethics	1.412

Hausman Test

Hausman test was carried to examine the most appropriate model to fit between fixed and random effects model. Results in Table 4.7 depicts that the most appropriate model to fit was random effects since the p values was greater than 0.05. Thus, the study adopted fixed effects model while examining the effect of ethical disclosures on financial performance of SACCOs in Kiambu County.

Table 4.7 Hausman Test

Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
15.42	2	0.234

Regression Analysis

Regression analysis results in Table 4.8 depicts that 48.2% of changes in financial performance of SACCOs in Kiambu County can be accounted for by corporate ethical identity and corporate applied ethics while the remaining portion is attributed to others issues excluded in the model. Since F statistics has p value less than 0.05 then at least one of the slope coefficients is none zero. Corporate ethical identity has positive statistically significant effect on financial performance of Saccos in Kiambu County ($\beta= 0.632$, p value < 0.05). Thus, it can be concluded that while holding constant corporate applied ethics a unit increase in corporate ethical identity increases financial performance by 0.632 units. Corporate applied ethics has positive statistically significant effect on financial performance of Saccos in Kiambu County ($\beta= 0.842$, p value < 0.05). Thus, it can be concluded that while holding constant corporate ethical identity unit increase in corporate applied ethics increased financial performance of Saccos in Kiambu County by 0.842 units.

Table 4.8 Regression Analysis

Financial Performance	Coef.	St. Err.	t-value	p-value
Corporate ethical identity	0.632	0.150	4.203	0.000
Corporate applied ethics	0.842	0.136	6.213	0.000
Constant	0.214	0.069	3.123	0.000
R-squared	0.482			
F-test	24.36	Prob > F	0.000	

VI. Conclusion and Recommendations

It can be concluded that there is need for corporate institutions to disclosure information beyond the statutory requirements. Further, measures should be deployed to enhance the level of ethical compliance in profit and non-profit making entities so as to enhance achievement of organization goals and objectives.

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