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The relevance of Financial Statements and its Impact on Organizational Performance: A case study of Atwima Mponua Rural Bank

Research Article by Eric Kwame Buah
Ph.D in Management, Texila American University
Email:- ericbuah09@yahoo.com

Abstract

This paper investigates the relevance of financial statements on Rural and Community Bank performance. Rural banks are the main source of financial service in rural sub- Saharan Africa and their services are mostly patronized by persons with little or no level of education. The study is therefore examining their level of knowledge on financial performance of the rural bank in which they are investing. The data was collected from a sample of one hundred and eighty respondents using questionnaires and face to face interviews conducted with management staff of the bank and used for analysis. The statistical tools employed in assessing the relevance of financial statements on the performance of Atwima Mponua Rural Bank were Mean distribution, coefficient of variation and regression analysis. The results indicate that the bank has been giving account statement quarterly or yearly to its customers. Findings of the study indicate that the bank post its annual financial statement to customers or post it on the bank's notice board. Then, it is found that the bank organized annual general meetings to explain its financial statement to its customers. It is therefore concluded that there is no evidence to ascertain that knowledge on financial statement is relevant to organizational performance. It is recommended that this study will be extended to other rural banks in the country to help assess the findings of this study.

Keywords: Financial Statements, Performance, Atwima Mponua Rural Bank, Case study

Introduction

In recent years, there has been much change in the banking industry mainly due to the influx of foreign bank particularly from neighbouring countries. This has led to a rise in competition in the banking industry making various banks under take mergers and acquisitions and others have become more innovative by introducing more products into the market especially information technology based products. Rural and Community banks (RCBs) are not left out in this technological change.

Rural and community banks (RCBs) have a mission to increase the provision of services in rural areas in a sustainable manner (Ghanaian Times, September 2, 2010). This should be to assist traders, farmers as well as workers with loans to expand their business (Ghanaian Times, September 23, 2010). The banks major target groups are smallholder traders and farmers (Owusu-Frimpong, 2007).

Banks need to put out accurate and timely financial statements which investors can assess and invest in the bank. According to Owen (2013), financial statements are important for the following reasons: financial statements tell the performance and the value of the bank; financial statements help investors to measure banks; and it helps banks to manage well when they can no longer be hands on with all the details. There are three primary financial statements: Income Statement; Income Statement; and Cash Flow Statement.

From Seiford and Zhu (1999), the measurement of bank performance is well researched and has received increased attention over the last decade. There have been a number of empirical studies on banks performance around the world (Lacewell, 2003; Halkos & Salamouris, 2004; Tarawneh, 2006). However, much has not been done on the relevance of financial statements and its impact in RCB Performance in Ghana. The whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly (Berger & Humphrey, 1997). According to Casu*et al*

(2006), bank regulators monitor banks by assessing banks' liquidity, solvency and overall performance to enable them to intercede when there is need and to gauge the potential for problems. Furthermore, bank performance measurement can also assist to improve managerial performance by pinpointing best and worst practices associated with high and low measured efficiency.

Statement of the Problem

Rural and community banks (RCBs) have a mission to increase the provision of services in rural areas in a sustainable manner. This should be to assist traders, farmers as well as workers with loans to expand their business (Ghanaian Times, September 23, 2010). However, due to the recent global financial crisis, it is justified that RCBs performance receives increased research from both scholars and industry specialists.

The two ways of assessing bank performance are the accounting method which is based on financial statement and the econometric method. However, financial measures have long been the basis for business performance measurement. These measures conveyed the performance and attainment in monetary terms, included in the statement of accounts, and carried a high level of collection of information. The financial measures are still widespread amid most of the businesses because non-financial measures such as quality, market share, human resources and customer satisfactions, tend to be subordinated to financial figures. Moreover, the fundamental dependence by managers on financial performance measures dominates organization stratagem predominantly in short run. Furthermore, the financial measures have been used for many years and managers are often contented with them. Whereas it is recognized that the instantaneous outlook for the

overall financial markets and subsequent world economic growth prospects appear challenging, the RCBs operating in healthy situation will remain resilient. In assessing the general financial ailment of a company, the financial statements such as income statement and balance sheet, are important reports, as this captures the business's operative performance and shows its net worth. This study therefore seeks to find out the relevance of financial statements and its impact on organizational performance as assess by RCB customers.

Objective of the Study

This paper specifically seeks to find out the relevance of the knowledge on financial statement on the performance of RCBs.

Related Literature

Measurement of Bank Performance

From Seiford& Zhu (1999), the measurement of bank performance is well researched and has received increased attention over the last decade. There have been a number of empirical studies on banks performance around the world (Lacewell, 2003; Halkos & Salamouris, 2004; Tarawneh, 2006). However, much has not been done on the relevance of financial statements and its impact in RCB Performance in Ghana. The whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly (Berger and Humphrey, 1997).

Tarawneh (2006) utilized FRA to investigate the impact of asset management, operational efficiency and bank size on the performance. He established that bank performance was strongly and positively influenced by operational efficiency, asset management and bank size.

Samad (2004) applied Student's t-test to measure the statistical significance for the measures of performance. The outcomes revealed that banks in Bahrain were somewhat less liquid, less profitable and were wide-open to higher credit risk as compared to banking industry, in which wholesale banks are the main component. According to Kiyota (2009), foreign banks tend to outperform domestic banks in terms of profit efficiency as well as cost efficiency in Sub-Saharan Africa. This result is not different from the research by Kirkpatrick *et al* (2007), who found that banks are on average 67% profit efficient and 80% cost efficient.

Financial Performance

In a study conducted by Collis and Jarvis (2006) on financial information and the management of small private companies in the U.K., the most useful sources of information are the periodic management account (i.e. the balance sheet and income statement), cash flow information and bank statements (of course bank statement are another form of cash flow information but generated externally). These sources of information are used by 80% of companies and this demonstrates the importance of controlling cash, which previous research (Bolton, 1971, Birley & Niktari, 1995) suggest is critical to the success and survival of a small business.

In the same research 87% of small companies' prepared profit and loss accounts and 78% balance sheet. These key financial statements allow management to monitor profitability of the business as well as its net assets. Confirming the usefulness of cash flow information, the analysis shows that 73% use bank reconciliation statement and more 55% use cash flow statements and forecast. However, other competitive performance measures perceived in literature such as ratio analysis, industry trends and inter-firm comparison are not widely used. Collis & Jarvis (2002), then states that this may indicate that small companies experience problems in gaining access to appropriate benchmarks, but could also be the results of competitors filing abbreviated accounts which reduces the amount of information available for calculating ratio and making comparison. In addition, as many small companies operate in the service sector, they occupy niche markets and may be less concerned with competition than those in other markets.

Melse (2004), reports that ratio analysis provides an insight into the financial health of a firm by looking into it liquidity, solvability, profitability, activity and capital and market structure. Jooste (2004) investigates that many authors agree that cash flow information is a better indicator of financial performance than traditional earnings. Largay and Stickney (1980) and Lee (1982) show that profits were increasing, W.T. Grant and Laker Airways had severe cash flow problems prior to bankruptcy. Jooste (2004) further states that users of financial statements around the world evaluate the financial statements of companies to determine the liquidity, assets activity, leverage, profitability and performance. Users of financial statements use traditional balance sheet and income statements ratios for performance evaluation. Therefore, along with traditional ratios, operating cash flow is also important when evaluating a company's performance (Jooste, 2004). Various literature states that the primary purpose of the cash flow statement is to assess a company's liquidity, solvency, viability and financial adaptability. According to Everingham *et al* (2003) operating cash flow ratios are indicators of performance. They determine the extent to which a company has generated sufficient funds;

- To repay loans;
- To maintain operating capabilities;
- To pay dividend; and
- To make new investments without using external financing, (Jooste, 2004).

Methodology and Data

This paper uses mean distribution and coefficient of variation (CV) to assess the relevance of financial statement on the Rural and Community Banks performance in Ghana. The coefficient of variation is defined as the ratio of the standard deviation to the mean, i.e. $CV = \frac{s}{\bar{x}}$ where s is the sample standard deviation and $\bar{x}$ is the sample mean. It shows the extent of variability in relation to mean of the population. Distributions with CV < 1 are considered low-variance, while those with CV > 1 are considered high-variance .Additionally, to examine whether there is linear relationship between knowledge on financial statement and RCB performance, regression analysis is employed to test the hypothesis that knowledge on financial statement of RCB improve performance. Inferences about the hypothesis are made by looking at test statistics and critical values associated with the analysis of variance associated with the regression model. If P-value≤ α, reject the null hypothesis. If P-value > α, do not reject the null hypothesis.

The population for this research comprise of all the customers of Atwima Mponua Rural Bank in the Ashanti region. A total of one hundred and eighty (180) customers were selected using the convenient sampling or non-probability sampling for the study. The reason is that, looking at the nature of work at the bank, the researcher interview customers who were willing to answer the questionnaire since some of the customers were feeling reluctant to compromise with the researcher. The researcher therefore, went round all the six branches/agencies to ascertain the needed information. Likert scale where a score of 1 was given for totally disagree and 5 for totally agree was mostly used for the questionnaire.

Results

This section presents and discusses the results. Where the likert scale is used, 1 stand for totally disagree, 2 – disagree, 3 – cannot decide, 4 – agree and 5 – totally agree. For instance when the mean score is 3.20, it will be interpreted as 3 because 3.20 is closer to 3 than to 4.

The table 1 below shows the mean distribution on the perception of financial statement. Mean score of 4.61 implies that most of the respondents totally agreed that the bank gives account statement quarterly or yearly to its customers. The CV of 0.14 means that mean score is not far away from the population mean. This is an indication that the distribution is near evenly distributed and it represents the views of the entire customers of the bank.

Table 1: Mean Distribution on the perception of Financial Statement

	Mean	Std. Deviation	CV
The bank gives account statement quarterly or yearly	4.61	0.638	0.14
The bank post its annual financial statement to customers or post it on the bank's notice board	4.76	0.468	0.10
Annual general meetings are organized by the bank to explain its financial statement	4.13	0.997	0.24

Source: field work, 2014

On whether the bank posts its annual financial statement to its customers or posts it on its notice board, the mean was 4.76. This illustrate that most of the respondents chose totally agree. The CV of 0.10 shows that the mean score of 4.76 is not far from the population average. This is an indication that the entire customers of the bank totally agree that the bank post its annual financial statement. From the Table, the mean score for whether annual general meetings are organized by the bank to explain its financial statement was 4.13 and the CV was 0.24. This depicts that the customers agree that annual general meetings are organized to explain the financial statement of the bank.

Table 2: Types of Financial Statement

Type of Financial Statement	Ticked(%)	Not ticked(%)	Total(%)
Balance sheet	100(55.5)	80(44.5)	180(100)
The income statement	108(60.0)	72(40.0)	180(100)
Statement of cash flow	130(72.2)	50(27.7)	180(100)
The statement of shareholders' equity	120(66.6)	60(33.4)	180(100)
Account statement	129(71.7)	51(28.3)	180(100)
Loan payment schedule	35(19.4)	145(80.6)	180(100)

Source: field work, 2014

The Table above shows the types of financial statement respondents have seen or collected from the bank. It could be observed from the Table that but for loan payment schedule; all the types of the financial statement are known according to the respondents.

Table 3: Items on annual Financial Statement

Item on Annual Financial Statement	Ticked(%)	Not ticked(%)	Total(%)
Balance sheet	156(86.7)	24(13.3)	180(100)
Income statement	132(73.3)	48(26.7)	180(100)
Statement of cash flow	149(82.8)	41(17.2)	180(100)
Notes forming part of the financial statement	111(61.7)	69(38.3)	180(100)
Report of Directors	173(96.1)	7(3.9)	180(100)

Source: field work, 2014

This is an indication that respondents have access to financial statement.

According to Collis & Jarvis (2006), the most useful sources of information are the periodic management account (i.e. the balance sheet and income statement). It could be observed from the Table 3 above that balance sheet, income statement, statement of cash flow, notes forming part of the financial statement and report of directors are found on the annual financial statement of the bank. This shows that the bank's customers have knowledge on financial statement. This results supported studies on financial reporting in developing countries (Hatif& Al-Zubaidi, 2000; Naser & Nuseibeh, 2003)who found that users in developing countries do not perceive themselves as suffering from difficulties in understanding the information in the annual reports.

Table 4: Knowledge on Financial Statement

	Mean	Std. Deviation	CV
The knowledge of the financial statement can influence your investment in the bank	3.20	1.193	0.37
The knowledge of a financial statement is relevant to every customer of the bank	3.79	1.008	0.27
Customers can analyze and interpret financial statement of the bank	3.26	1.042	0.32

Source: field work, 2014

The analysis on the Table 4 above depicts mean score of 3.20 which shows that respondents cannot decide whether the knowledge of the financial statement can influence their investment in the bank. The CV of 0.37 shows that the sample average is to the large extent closer to the population average. This shows that majority of the customers of the bank cannot tell whether knowledge of the financial statement can influence their investment at the bank. However, when asked whether the knowledge of a financial statement is relevant to every customer of the bank the mean score was 3.79. This implies that most of the respondents agreed that knowledge of a financial statement is relevant to every customer of the bank.

From the Table, it could also be inferred that customers cannot decide when it comes to whether they can analyze and interpret financial statement of the bank. This is an indication that most customers have seen financial statement however, they find it difficult to analyze and interpret it. This may also due to the fact that some of the terms on the financial statements are purely accounting terms which need people with accounting background to understand it.

From Berger & Humphrey (1997), the whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly. Banks are assessed based on the information they themselves put out. In view of this the customers were asked to assess the bank based on the items on the Table 5 below.

Table 5: Mean Distribution on Financial Performance

	Mean	Std. Deviation	CV
Does the real value of total assets of the bank increase over time	4.45	0.779	0.18
Deposits mobilization of the bank is high	3.93	0.894	0.23
The loan portfolio of the bank is of acceptable quality	3.67	1.052	0.29
The bank's loan recovery is of acceptable quality	3.54	0.861	0.24
The bank makes high profit	3.47	1.179	0.34
The bank's expenditure is low	2.27	0.882	0.39
There is high risk of losing your investment at the bank look at the bank's financial statement	2.49	0.931	0.37

Source: field work, 2014

When asked whether the real value of total assets of the bank increase over time, the mean score was 4.45 with standard deviation of 0.779. This shows that most of the respondents agreed that the real value of total assets of the Bank increase over time. With a CV of 0.18, one can say that the entire customers of the bank agreed that the bank's total assets increase over time. If the bank's total asset increase over time, it means the bank is in more business (Aboagye & Otieku, 2010).

It can also be inferred from the Table that deposits mobilization of the bank is high with average score of approximately 4. According to the respondents the loan portfolio of the bank is of acceptable quality. According to Aboagye & Otieku (2010), granting of loans is a major function of RCBs. But such loans must be paid back if the institutions are to continue to be in business. The customers however, disagreed that the bank's expenditure is low. This is congruous to findings by Aboagye & Otieku (2010), who indicate that the operating expenses of the bank need to be low.

The respondents disagreed that there is high risk of losing your investment at the bank look at the bank's financial statement. This shows that but for the high operating expenses, the bank is performing well financially per the views of the customers.

Hypothesis

Ho = Knowledge on financial statement of RCBs does not improve performance

Table 6: ANOVA of the Regression model

Model	Sum of Squares	df	Mean Square	F	P-value
Regression	0.038	1	0.038	0.039	0.843
Residual	169.207	178	0.951		
Total	169.245	179			

Source: Field work, 2014

From the results on the Table 6 above, it could be observed that there is no statistical evidence to support the statement that knowledge on financial statement of RCBs does improve performance as the P-value is 0.843. Therefore, the null hypothesis cannot be rejected. From the results we cannot say that financial statement is not relevant to financial performance of an organization, just that the evidence there is not enough to justify that. This also shows that most of the customers of RCBs do not understand or cannot interpret financial statement due to its technical nature.

Summary and Conclusion

This paper looks at the relevance of the knowledge on financial statement to organizational performance using Atwima Mponua Rural bank. The results indicate that the bank has been giving account statement quarterly or yearly to its customers. Also the results indicate that the bank post its annual financial statement to customers or post it on the bank's notice board. It was also revealed that the bank organized annual general meetings to explain its financial statement to its customers.

The results also show that the bank customers knew the types of financial statements. This they mentioned as: Balance sheet; the income statement; statement of cash flow; the statement of shareholders' equity; and account statement. The following items were established to be on the annual financial statement of the bank: Balance sheet; income statement; statement of cash flow; notes forming part of the financial statement; and report of directors.

The results also indicate that the customers of the bank cannot tell whether knowledge of the financial statement can influence their investment at the bank. It was also revealed that knowledge on financial statement is relevant to every customer of the bank. Most of the bank customers cannot analyze and interpret financial statement of the bank. It could there be concluded that there is no enough evidence to ascertain that knowledge on financial statement is relevant to organizational performance.

Limitations

The main difficulty encountered in the study was the non-availability of respondents to respond timely to the questionnaire. This situation made it difficult for the researcher to

get the perspectives on important issues on which they were interviewed. In addition, the restriction of the study to the Atwima Mponua Rural Bank makes it impossible for the researcher to generalize the findings to cover other rural banks in the country. However, other rural banks with similar situations can make use of the findings.

Recommendation

The findings from the research agree that most of the bank's customers cannot analyse and interpret financial statements. It is recommended to management of the bank that much time should be taken to explain financial statements to the customers during annual general meetings. This will help the customers to have much knowledge on financial statements.

This study could not analyse the financial statement of the bank which would have enrich it. This was due to the bank management unwillingness to release the statement, since they said it has security imprecations. It is recommended that study of this nature helps to develop the financial industry and therefore such information should be made available to researchers to help assess the performance of the bank well.

Proposal for further Research

An area for further research is to sample from several different rural banks and rural banks located across the nation and the observation compared to what this study has gathered.

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