Quality of Financial Reporting and Financial Performance of Manufacturing Firms Listed in the Nairobi Securities Exchange in Kenya.

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DECLARATION AND CERTIFICATION

DECLARATION

I certify that the thesis I am presenting is entirely original, which is not yet submitted elsewhere for a degree or any other accolade. It was created using just the sources and support that are listed.

Signature …………………………. Date ……………………

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CERTIFICATION

This research thesis "*Quality of Financial Reporting and Performance of Manufacturing Firms Listed in the NSE in Kenya.*" was approved by me as the university's supervisor and submitted for evaluation.

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DEDICATION

I devote this research thesis to my loving parents; Mary Chan and Peter Malimu; who instructed me in that learning is a treasure that will follow its honor everywhere. "Thank you for your immense support".

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ABSTRACT

Even though manufacturing firms in Kenya are of great value, there exists inadequacies in their Financial Performance. Kenyan Manufacturing firms are reporting losses as evidenced through accounting conservatism, audit committee shortcomings and low earnings. The purpose of this research was to evaluate how the veracity of financial reports would affect the NSE-traded companies' bottom lines. The key goals of this research were to examine the relationships between business profitability, accounting conservatism, audit committee size, and board size among Kenyan manufacturing enterprises. Eight companies trading on the NSE were the primary focus of this study's mixed-methods analysis. Financial statements were mined for secondary financial data covering the years 2015 through to 2021 by the use of document analysis tool. Descriptive statistics were used to analyze the data. These statistics include averages, medians, and percentages. Insights were gained from these examinations. Pearson correlation was used as the inferential statistical method. Financial results were found to be significantly positively correlated with accounting conservatism. The size of the board of directors and the quality of earnings were found to attenuate this association (p0.0001 and p0.035, respectively). The results of this investigation provide strong evidence against four key null hypotheses. The results guided the subsequent recommendations, which highlighted the need to hire more auditors and provide incentives for them to increase their investments and, by extension, their incomes. Utilizing inventory statements, debtor statements, and creditor statements can help businesses increase their profits. Monitoring cash inflows and outflows may be useful for manufacturing businesses in maintaining financial stability. The findings are significant because they show how important it is to assess the qualities and skills of board members to improve board effectiveness. The number of directors on a company's board has been shown to correlate positively with the efficiency of its management, according to studies.

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OPERATIONAL DEFINITION OF TERMS

Accounting conservatism: This refers to the cautious treatment and dealing with income and assets while overstating losses. Accounting conservatism will be measured by ACCF measure and market to book ratio formula

Audit committee: It is a board oversees the audit activities of manufacturing firms.

Audit committee effectiveness: Audit committee membership numbers and audit report quality

Earnings quality: It amounts to substance exerted through profits. Earnings quality will be measured by quality of Earnings Ratio and Receivables Accruals Ratio.

Financial Performance (FP):   It refers to successful management of resources to yield positive returns. Financial Performance (FP) is assessed using total income divided by total assets

Financial Reporting: Refers to the act of furnishing the stakeholders and the public with financial

results of an organization, majorly done by the management.

Financial reporting quality: It means choosing between including material that is accurate, relevant, thorough, and unbiased versus including information that may even be entirely false.

The Board of Directors size: This attributes to the central point of manufacturing firms' decision makers. It was measured by the number of directors

Manufacturing firms: A business entity that processes raw materials to finished goods.

LIST OF ABBREVIATIONS

ACCF: Asymmetric Accruals to Cash Flow

CAC: Corporation Affairs Commission

CEO: Chief Executive Officer

CMA: Capital Markets Authority

EACC: Ethics and Anti- Corruption Commission

EPS: Earnings Per Share

FASB: Financial Accounting Standards Board

FRQ: Financial Reporting Quality

GCC: Gulf Cooperation Council

GDP: Gross Domestic Product

GMS: General Meeting of Shareholders

GoK: Government of Kenya

IAS: International Accounting Standards

IASB: International Accounting Standards Board

IFRS: International FR Standards

KAM; Kenya Association of Manufacturers

KNBS: Kenya National Bureau of Statistics

LN:	Natural Logarithms
NICE:	National Institute for Health and Care Excellence
NSE:	Nairobi Security Exchange
ROA:	Return on Assets
SEC:	Securities and Exchange Commission
FP	Financial Performance
FR	Financial Reporting
MS	Manufacturing Sector

1.1 Background information

Financial Reporting quality through comprehensive disclosure generates transparency in an organization. Moreover, the accounting standards and laws set in place were done with the intention of ensuring that financial reporting practices were done ethically with the intention of safeguarding concerned parties. Users of financial information have often relied on quality of financial reports with diverse reasons such as financial performance concerns. For instance, Delloite and Touche were the auditors of Mumias Sugar Company. In 2006, they reported a sterling performance of the company. Two years later, the company collapsed despite having good financial reports which should depict good financial health. Mumias Sugar is accused of borrowing Sh2.6 billion from the accounts of Mumias Out Growers Company in 2007 and declaring it as a part of its revenues, according to an internal audit study at the sugar miller. (Kenya Association Manufacturers, 2021). The EACC, in response to a complaint made by cane growers who claim that top Mumias executives conspired with Deloitte to hide accounting issues at the company (Kenya Association Manufacturers, 2021).

Institutions that provide invaluable service of regulation can utilize the research findings on determinants of the effectiveness of financial reporting to enhance their comprehension of financial market activity. Moreover, through the gained insight, these regulators will be able to assess whether their intervention is required. financial reporting accounting is monitored by Corporate Affairs Commission (CAC), that is tasked with monitoring organizational activities. Capital markets are supervised by the SEC as NSE checks on ensuring compliance on firm listed. These legislations are

established with the aim of having financial statements attain and be made in the desired general consensus. In essence, the legally desired financial statement attains the general consensus threshold and can be relied on for effective decision making. Consequently, the general populace and those actively relying on financial statements are able to develop a great sense of trust for financial statements that are bound by law (Mugwe, 2018). However, despite the existing legal constraints, human action and behavior in the running of companies and the preparing of financial statements cannot be fully controlled. Thereby, a number of managers always undertake unethical actions when preparing financial statements such as overstating the institution's quality profits so that the institution is viewed as more profitable. However, such unethical actions by the leaders of these institutions result in a domino effect of undesired outcomes such as investors who rely on the presented financial statements making investment decisions based on falsified data and thereby possibly incurring losses. In essence, any unethical preparation or presentation of financial accounts undermines the legal restrictions put in place and the trust that is built up when stakeholders and other parties use these financial statements. (Blom, 2019).

International financial reporting standards are at the stage whereby more and more countries around the globe are utilizing the umbrella standards as to reflect an occurrence in which more people desire the legislative practice especially those in the countries that are still developing. Additionally, corporations who previously relied on their local capital markets for funding to expand are now seriously looking for debt and equity capital both inside and outside of their borders as a result of the growing globalization of world trade. A consistent accounting standard has various benefits, according to IFRS proponents.

One of the key benefits of a single set of worldwide accounting standards, as promoted by its proponents, is that it enables foreign investors to compare various financial statements across various businesses and nations. International Accounting Standards (IAS) brought about the potential for having international standards. IASB claims stating that about 120 nations demand or enable use IFRS Additionally, reports of this nature encourage nations seeking to entice foreign direct investment. (Ruch & Taylor, 2015). The current research establishes a connection between an effective Audit committee, conservative accounting practices, and reliable earnings.

The study of international relations is one example of a discipline that takes a worldwide view. Accounting conservatism and earnings quality were investigated as potential factors impacting the success of European businesses in a recent study by Lopes et al. (2021). Increases in return on assets (ROA) were linked to improvements in accounting conservatism and earnings quality, the authors found.

Mohammadi (2018) finds a significant association in the setting of the Tehran stock exchange, contrary to Heirani and Mirhosseini (2012) who do not find a statistically significant correlation between financial success and financial reporting quality. In addition, Mohammadi's research demonstrates the positive impact of financial reporting quality on investment effectiveness. To measure the quality of financial reporting, regional assessments have been made. In their 2017 study, Madawlli and Amran made the case that audit committees are essential for improving the accuracy of financial statements for companies listed on the Nigerian Stock Exchange. The use of earnings as a way to raise the standard of financial reporting is supported by the research carried out in Nigeria by Dechew and Dicuer (2012). Shehu (2016) agrees with earlier scholarly studies that stress the necessity of accurate financial reporting within Nigeria's industrial sector.

A study on Tunisia firms by Klai and Omiri (2020) exalted corporate governance entities with special regards to accounting conservatism. This gave indication of financial growth of firms.

A study on Ugandan public sector gives financial reporting a professional approach when qualified people are helps in generating earnings (Buuenya, 2018). Locally studies on financial reporting record mixed findings. Ojeha, Mukoro and Kanya (2015) examined financial reporting quality in a manufacturing sector (MS) and found financial reporting quality lacked influence on performance.

Mugwe, (2018) conducted a study in Kenya on financial reporting quality on the FP and opined that experience of auditors influenced performance. Mugwe, (2018) concludes that a committee's independence, composition, technical expertise, and prudential standards are crucial in ensuring that an audit team is effective and likely efficient in monitoring and examining an organization's accounting operations and practices.

1.1.1 Manufacturing Firms in Kenya

The MS makes an economy more vibrant and realistic. Economists have high regards on the value of manufacturing firms (Kungu, 2015). There has been an upward growth trend among manufacturing firms in Kenya which has yielded to improved GDP, accelerated growth in employment trends and magnified earnings of foreign exchange (Rotich & Namusonge 2016). In Kenya MS has propelled foreign exchange earning to 34% (Kenya Association Manufacturers (KAM, 2014). Though MS growth is declining in UK, it is the third largest, in Ireland it's the major contributor to GDP at 46% and employment at 29%. This has at the end improved development standards and living standards in the county. With global manufacturing growth being at least

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2.7% on annual basis this is a remarkable trajectory (KAM, 2021). The MS is the largest provider of employment at 20% in Kenya (GOK, 2021).

According to Khalifa and Shafii, (2013) Manufacturing Sector is an engine in the current economy as it generates development. Despite the tremendous upward trajectories, the MS earning figures are declining in the recent past. The earning figures were as follows; in 2020 at 9.3%, 2021 at 8.7% and 2022 at 8.4% (CMA, 2020). Furthermore, ARM and E.A Cables losses increased by 134% and 14%, (NSE, 2020).

1.2 Statement of the Problem

The Manufacturing Sector makes an economy more vibrant and realistic. In Kenya Manufacturing Sector has propelled foreign exchange earning to 34% (Kenya Association Manufacturers (KAM, 2014) and it is the largest provider of employment at 20% in Kenya (GOK, 2021) yet its earnings figures are declining in the recent past. The earnings figures were as follows; in 2020 at 9.3%, 2021 at 8.7% and 2022 at 8.4% (CMA, 2020). Furthermore, ARM and E.A Cables losses increased by 134% and 14%, (NSE, 2020).

Studies on Financial reporting quality on Financial Performance are inconsistent. Mugwe, (2018) discovered that accounting conservatism and audit committee positively correlated to performance of agricultural firms whereas Klai and Omiri (2020) found Financial Reporting quality as insignificant while examining audit committee and accounting conservatism as well as earnings quality.

Ojeha, Mukoro, and Kanya (2015) suggested investigating manufacturing sector Financial Reporting quality. LaGore (2018) conducted a research project to determine the likelihood of a Financial Reporting Failure due to Conditional and Unconditional Conservatism. His research showed that after a Financial Reporting blunder,

companies were more careful in their reporting in order to regain the trust and confidence of their business partners and to protect their mutual interests. On the other hand, he calls for more research into specific instances of conditional conservatism that follow a statement, such as asset impairment accounting. Moreover, he thinks it would be interesting to learn how the manifestation of conditional conservatism influences a company's choices regarding financial reporting after a financial reporting failure. Specifically, the study will use a cross-sectional analysis of listed enterprises to investigate the manufacturing industry from 2015 to 2021.

1.3 Objectives of the study

1.3.1 Main Objective;

To determine the effect of quality of financial reporting on the performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya.

1.3.2 Specific objectives

   i.   To determine the effect of audit committee effectiveness on financial performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya.

  ii.   To ascertain the effect of accounting conservatism on financial performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya.

 iii.   To identify the effect of earnings quality on financial performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya.

  iv.   To examine the moderating effect of directors' board size on financial reporting quality and financial performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya.

1.4 Hypotheses

The research hypothesis sought to test the following null hypotheses;

H_{01}: Audit committee effectiveness does not significantly affect Financial Performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya

$H0_2$: Accounting conservatism does not significantly affect Financial Performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya

$H0_3$: Earnings quality does not significantly affect Financial Performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya

$H0_4$: Directors board size has no moderating significant influence on Financial Reporting quality and Financial Performance of manufacturing firms listed in the Nairobi Securities Exchange in Kenya

1.5 Significance of the study

1.5.1 Policy Makers

This study may be an opening window to the government in addressing Manufacturing Sector through policy formulation that may see the sector avoid cases of declining earnings. This will help safeguard the management and employees' interests as well as firms going concerns.

1.5.2 Investors

The trends in earnings makes investors to make wise choices regarding investing. Through the study current and potential investors will see the need of wise investment avenues. Investors will also advise manufacturing firms on areas to concentrate in improving earnings.

1.5.3 Researchers

Studies are formulated as a result of past studies where gap generation is identified. Future research in the Manufacturing Sector, financial reporting, and Financial Performance will also benefit from this study.

1.6 Scope of the study

The study examined the Financial Performance and transparency of industrial companies listed on the National Stock Exchange (NSE). This analysis looked at the correlation between audit committee size, accounting conservatism, earnings quality, and board size. The study gathered data for the period of 2015-2021 among listed manufacturing firms. The study was projected to last between January 2022 to December 2022. A financial review of the firms was carried out as per the KAM, GoK, KNBS, NSE and CMA handbook reports.

1.7 Limitation of the study

The research was limited to manufacturing firms that were listed on the NSE, therefore it was unable to fully generalize its findings to the rest of the nation. Only reports based on financial statements were included in the research population. This was done to make sure the data collection process is simple. Once more, this was helpful in determining the reliability rating of the study instruments. The study also concentrated on the size of the board of directors, accounting conservatism, earnings quality, and conceptual analysis of the audit committee.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This second chapter offers an elaborate discussion about Financial Reporting quality, board size and Financial Performance. Theories guiding the study as well as past studies forms literature for the study, tabular discussion of the identified gaps in research and conceptual framework explained the study concept.

2.2 Theoretical Review

Theories are baseline frameworks that guide certain concepts. It avails avenue for variable links and baselines for arguments and critique (Ross, 1970). It helps to show the framework upon which the study is guaranteed.

2.2.1 Signalling Theory

Developed by Ross, (1970). This explains the notion that information disclosure is a key and on that perspective accounting conservatism thus reliability stature comes out clearly as an element of signal need. Financial statements should be made in a manner of accuracy and in their true position to help give signals of the firm position. In situation of low earning or earning quality questions it will come out in advance. The theory provides the firms true position and hence negative or positive signals gives certain beliefs which affects Financial Performance of such a firm (Spence, 1973).

Financial statements help on disclosure trends of a firm which explains the going concern levels of the firms (Ross, 1977). Earnings quality will tell the signal trends of a firm and know cautious measures to provide. Audit committee composition, efficiency, expertise and experience will signal out the levels of confidence to give and pattern to be capitalized on. Directors as users of financial information are in dire

needs of firm signals and therefore size of director board has an impact on Financial Performance. It is in order that firm owners are geared on profit maximization and any loopholes arising would of priority to be handled.

Investors emanates when signals show better earnings and reports portray reliability issues crowning need for accounting conservatism (Abdulla, 2011). However, it is disheartening that companies with low performance intentionally don't disclose financial reports making it difficult to tell the state of the firm and may lure investors in losses due to information asymmetry puzzles (Tarca, 2014). Timely provision of statements, disclosure of losses would give an easy time to users of financial statements. Accounting conservatism reliability goal will also help signal out the losses and provide mechanism to manage it. Earnings signals financial trends as audit formulation yields confidence signals. Board of directors are interested with signals generated to help establish profit element. This stands out as the major theory guiding the study.

2.2.2 Inspired confidence Theory

Developed by the Limperg in (1932), this theory bestowed trust and confidence levels to an auditor, it gives the auditor the benefits of trust that he/she will execute duties to the best of his/her knowledge. An auditor is expected to provide earnings as they arise without any alteration of earnings. Earnings should be shown as they get in. This calls upon an effective approach when audit committee is making decisions regarding choice of audit committee, the committee should capitalize on experience and expertise in choosing members. This contributes in confidence making among auditors and those mandated with financial responsibilities. Therefore, audit committee must be in place to help manage confidence role.

According to Limperg (1932), confidence will make investors to gain trust and do business with the firm. It is an inspiration to ensure performance is continuous and on record. This theory was also brought on board by Okpala (2015) in Nigeria while studying audit quality practices. In his study audit committee should be well structured to inspire confidence among users of financial information and more so woe investors. Similarly, Carmichael (2014) crowns confidence levels to audit committee equally making earnings a reality. Therefore, this theory is of help on audit committee variable.

2.2.3 Agency Theory

Jensen and Meckling (1976) agency theory explains the principal agent association. In manufacturing firms, the owners who are the shareholders get information from the management who act as agents. financial reporting is generated by management audit team that has the expertise and experience to execute roles. It is a singular duty of an auditor to build confidence to investors on reports made. They are equally required to report earnings as they exist without any form of generating asymmetrical trend. The management ensures they avoid conflict of interests through report manipulation for selfish gains. Earnings should be reported as they exist without falsification. Reliability thus conservatism between agents and principal should clearly come out (Toukabri, Ben & Julani, 2014).

Managers should pay employees and management at large when need arises since earnings made is as a result of employees' efforts and commitments. Equally Leuz, Nanda and Wysocki (2003) used agency theory to explain the shareholder management concerns. A manager executes duties on behalf of shareholder and they have sole reasons for desired growth. Davidson, Goodwin, and Kent (2005) explained reliability concerns for management towards firm performance and the shareholder individual efforts. Hassan and Bello, (2013) affirms agency theory applicability on

quality of financial statements. The study acknowledged auditors as agents and shareholders as the principal. Auditors were expected to give reliable, clear and precise information of earning patterns in the institution (Abdulla, 2011).

In this context audit committee members are agents who report to directors. Size of directors hence influences nature of principal efficiency. On the other hand, audit committee composition, independence, and provision of meetings has an influence of quality of financial reports. Conflicts may arise between the committee and the board based on firm interests and personal interests of auditors. The quality of earnings will always arise when agency relationship terms are well managed without conflicts.

2.3 Conceptual Review

This section reviewed all variables comprising of audit committee, accounting conservatism, earnings quality, director board size and Financial Performance.

2.3.1 Audit committee

Auditors have a solemn role of checking financial records of an organization to ensure accuracy hence reliability. They exist as both internal auditors and external auditors. Audit committee therefore provides the best check and they should be keenly selected based on expertise and experience (Hamdan, 2020). Audit committee effectiveness was measured by several members on audit committees. Furthermore, audit meetings, audit composition and audit independence will ascertain audit committee effectiveness.

2.3.2 Accounting conservatism

Accounting conservatism dwells on the element of reliability of accounting records. It checks on the accuracy given to establish if records were prepared accordingly. Understatement for assets as well as revenue is criminal. Overrepresentation of liabilities

and expenses equally is not allowed. Gains are only recorded once attained and not while under anticipation (Ozcan, 2021). This study measured accounting conservatism of manufacturing firms by use of stock returns thus Positive stock returns/Negative stock returns.

2.3.4 Earnings quality

Earnings are capitalized on a manner that they should be of maximum quality to benefit the organization. The earnings should be of high value addition to the firm meaning investment in assets of substance is of priority. It is upon the directors and shareholders to ensure they avail resources to generate good earnings (Istianingsih & Mukti, 2017). It is at the discretion of company management, shareholders and employees to maximize of opportunities available to generate earnings of quality (Hamdan, 2020). This study measured earnings quality by use of quality of Earnings Ratio= Net cash from operating activities/Net income.

2.3.5 Size of board of directors

Director board size captures the element of the particular number of directors the firm has and even goes further to check on their efficiency based on experience and qualification merits. Afza and Nazir (2014) indicate that size of directors' board size affects firm performance. This is because, a larger size of board of directors is devoid of efficiency. Aanu (2014) found director size to be an ingredient in yielding quality earnings, generating conservatism accounting and it helps in building a strong audit committee. The directors board size was determined in this study by quantifying the number of directors.

2.3.6 Financial Performance

Financial Performance is interested on the monetary gains an organization gets as a result of proper investment. Quality of financial reports helps in telling the Financial Performance based on earnings report provided, audit committee records and accounting conservatism records. Director's size helps in financial decision making process where their number matters a lot especially attached on their experience and qualifications. The shareholder capacity has a role on FP (Kariithi, 2017). The research utilized the rate of return upon investments metric as a reliable tool to assess the financial health of the organization.

2.4 Empirical Review

2.4.1 Audit committee and Financial Performance

A study was carried out by Hamdan (2020) to look at the effects of an active auditing board and its meetings on the FP of 23 organizations in the Gulf Cooperation Council region. The years 2014 through 2018 were the subject of the study. A longitudinal study design and panel data were used in the investigation. The analysis found no connection between the frequency of audit sessions and how these companies fared financially at the Gulf Cooperation Council. The study is criticized for concentrating on public companies without taking profits quality into account as a study variable.

A study by Elghuweel, Ntim, Opong, and Avison (2017) checked on audit committee efficiency for 116 firms in Oman. This was with aim of ascertaining its financial influence. The effectiveness of an auditing committee can be assessed by considering factors such as the qualifications of its members, the professional expertise of its members, and the makeup of the team conducting the audit. The research revealed that the effectiveness of audit committees not solely had advantageous effects but also a statistically significant impact on the economic health of organizations.

Albedal, Hamdan, and Zureigat (2020) studied quality of financial reports verses FP of Bahrain Stock Exchange listed firms. The study dwelt on quality of earnings and audit committee as IVs finding them to be positive and significant in relation to ROA measure of FP. Though the study took place for 2013–2017 for more recent studies.

Nasiri and Ramakrishnan's (2020) research looked at how auditing panels affect business success in Ethiopia. The study used primary data based on Likert scale questionnaire among the employees. The found expertise of audit committee to be of major significance value on FP of firms.

Madawlli and Amran (2013) conducted a study at Nigeria stock exchange whereby quality of financial reports was provided based on audit committee. The companies under investigation were 70 and both primary and secondary data was collected. Findings showed significant effect of audit committee on performance.

Tuuisandi and Puspitasari (2015) established international financial reporting standard and FP of firms. IFRS used audit committee and earnings quality as its key variables that had positive significant effect on performance of firms. The study failed to highlight the element of FR quality but dwelt on standards.

Locally studies on Financial Reporting Quality record mixed findings. Ojeha, Mukoro and Kanya (2015) examined Financial Reporting quality in a manufacturing sector and found financial reporting quality lacked influence on performance. Performance was measured using return on assets.

Mugwe (2018) examined audit characteristic and performance and opined that that experience mattered a lot when it comes to enabling Financial Performance. Mugwe (2018) states that crucial factors in establishing an effective and likely efficient audit to monitor and check the performance and practices of an organization are the

committee's independence, composition, technical capabilities, and prudential criteria. Wasan and Mulchandani (2019) investigated the influence of audit committee meetings frequency on financial performance. This research employed secondary data where number of meetings done was recorded and then the frequency or how often they were done. Later data converted to natural logs. The results provided that number and frequency of meetings had a considerable influence on performance.

2.4.2 Accounting conservatism and Financial Performance

Conservatism principle simply refers to reliability concerns for financial statements of an organization. This guides accounts on record making, revenue, assets and liability recognition. It is therefore important for users of financial information to get much reliable information as far as events are concerned (Santana &Klann, 2016). The principle shields financial information users from inflated revenue (Sholikhah & Baroroh, 2021).

Chan, Lin, & Strong (2019) studied the balance sheet and earnings conservatism on financial performance. According to the study, balance sheet conservatism was superior than profits conservatism in terms of both desirable quality of accounting information and reduced costs of equity capital. Therefore, even though each influence was important, it had both positive and negative effects.

Lara, Osma, and Penalva (2021) looked into the connection between conservative accounting practices and the financial success of Japanese publicly traded companies. The cost of equity capital and conditional conservatism were employed to assess conservatism. Under a conditional conservative paradigm, economic gains are taken into consideration while losses are disregarded. This has an effect on long-term financial performance, which is reflected in the stock prices of different companies. The study came to the conclusion

that fiscal conservatism significantly affects the financial health of Japanese listed corporations.

The impact of conservatism in accounting on the Financial Performance of 259 manufacturing enterprises in Jordan was evaluated by Abed, Al-Badainah, and Serdaneh (2018). Although conservatism had a major impact on business performance by driving earnings for the firms, there were variances in conservatism accounting for various firms.

Hamdan (2021) wanted to look into how conservative accounting affected the financial performance of Jordanian businesses. 30 industries were examined for this. Due to the low degree of conservatism practices in the companies under examination, the study revealed that conservatism has a negligible and minor impact on company value.

Alkurdi, Al-Nimer and Dabaghia, (2017) established the role of conservatism accounting in relation to ownership structure of Jordan listed firms. The study found insignificant role of ownership on conservatism. The study failed to articulate financial performance but instead concentrated on ownership structure element showing need to bridge the gap for this study.

Alhenaoi (2018) the study assed accounting conservatism and firm performance. Linear and multiple regression as well as Pearson correlation conducted showed conditional conservatism to have a negative insignificant relationship compared to unconditional conservatism.

Haider, Singh and Sultana (2021) established influence of conservatism accounting and managerial performance output. The research established a positive significance influence showing that reliability of financial reports was of value. Ozcan (2021) found conservatism accounting as evidenced in influencing the performance of non-financial firms in Istanbul.

Ball and Shivakumar developed the Accounting Aggressiveness Check Formula (AACF) in 2005 to assess the degree of caution in private companies' financial reporting. Basu's AT metric is useless for non-public companies because they have no valuations of stocks that are publicly traded. To address this criticism and create an alternative to the stock market's version of the AT measure, Ball and Shivakumar (2005) created the AACF measurements. The AACF index relies on an assessment of regression of *"change in inventory + change in Debtors + change in other current assets – change in Creditors – change in Other current liabilities – Depreciation."*

Both the AACF and the Basu AT are calculated using equations with highly comparable structures, and they both rely on the same underlying concept of asymmetric timeliness. Both models do a regression analysis on profitability vs an economic 'news' surrogate. Separating 'good-news' from 'bad-news' in both models is accomplished through the use of dummy variables (DR or DCFO). The primary distinction between both of those indices lies in their respective selections of financial 'news' and profitability proxies. The return on stock is used as a proxy for news in the Basu AT model, while cash flow from operations is used in the AACF metric. Total incomes are used as the measure of response in the Basu AT model, but only the accrual portion of earnings is used in the AACF metric. Accounting conservatism is thought to have a greater impact on the accruals rather than the cash flows component of earnings, Ball and Shivakumar (2006) relied on the accruals portion of total profits.

Wang, Hogartaigh, & Van Zijl (2008) undertook a study on conservatism accounting. However, as the strengths and shortcomings of the AACF measure are not extensively covered in this study, it is plausible that certain critiques directed towards AT may not be applicable to AACF. For instance, it is unlikely that accruals and cash flows will

experience the simultaneity issue Beaver et al. (2008) identified for earnings and stock returns. Additionally, there are no studies in print that claim the AACF metric is biassed. The study will focus more on the AACF measure's advantages, disadvantages, and potential biases.

The Market to Book Value (MTB) measure was developed by Feltham and Ohlson (1996). For inclusivity and to address the gap that may exist, this study will also use Market to Book Value to measure conservatism.

2.4.3 Earnings quality and Financial Performance

Researchers Nasiri and Ramakrishnan (2020) looked at how earnings quality affected firm ownership. The study found that earnings quality becomes low when firm ownership is high though quality of earnings becomes of quality when firm ownership is objective and to course of duty, therefore earnings quality is significant in an organization.

Among 17 European governments, a study by Ashbaugh, LaFond, and Mayhew (2013) examined the impact of earnings quality on information disclosure. The study found that cost of earnings negatively affected disclosure of information and at the end earnings quality had a significant effect on disclosure of information for the firm.

A substantial correlation between earnings management and organizational success was discovered by Leyira and Okeoma (2014). They opined that organizations manipulate earnings to make it appear as though they are efficient in their operations, but they said that such accounting practices and the scandal that surrounds them can devastate an institution. They therefore called for the restoration of honesty and public trust in accounting operations.

The effect of earnings quality on deposit-taking banks' performance in Nigeria was established by Yahaya, Kutigi, and Mohammed in 2015. According to the study, bank losses decreased business profits. The study came to the conclusion that while losses had a negative effect on earnings quality, the quality of earnings eventually had a big impact on how well deposit-taking institutions performed.

In 2015, Tyokoso and Tsegba conducted research on Nigeria's listed oil companies from 2005 to 2014. The study looked into how oil company performance was impacted by the quality of earnings. The data showed that the performance of oil businesses was negatively but marginally impacted by discretionary accruals.

Nigerian commercial banks were studied by Umoren and Enang (2015), who looked into how the quality of earnings affected global standards for financial reporting. From 2010 to 2014, this affected 12 banks with a public stock market. The research found that listed Nigerian commercial banks' performance improved significantly when they adopted global reporting requirements.

2.4.4 The Board of directors' size and Financial Performance

The study conducted by Boshnak (2021) examined the influence of board size on the association between the performance of Nigerian manufacturing businesses and the quality of their earnings. A significant correlation was observed by researchers in Nigeria between the operational profitability of a company and the composition of its executive board.

Mensah and Deajeon (2013) undertook a study to investigate the mediating impact of board size in the relationship between a firm's performance on the Ghana Stock Exchange and the accuracy of its financial statements. Researchers in Ghana have

established a noteworthy association between the effectiveness of a company's board of directors and the overall performance of the corporation.

In their study, Alrayyes and Al Khaldy (2019) aimed to investigate the relationship between board size, Financial Reporting quality quality, and performance in manufacturing businesses located in Ethiopia. The research findings indicate a strong correlation between the FP of manufacturing firms in Ethiopia and the accuracy of their financial reporting. Furthermore, empirical evidence suggests that the strength of this correlation is significantly influenced by the composition of the board of directors.

In their 2018 study, Nasr and Ntim investigated the correlation between conservative accounting methods and the success of manufacturing enterprises in Egypt. The study specifically explored the role of board size as a moderating element in this relationship. Researchers discovered a substantial relationship between the composition of a company's board of directors and the correlation between conservative accounting methods and the success of industrial enterprises in Ethiopia.

In their investigation, Nasiri and Ramakrishnan (2020) explored the moderating effect of board size on the relationship between manufacturing firm performance and the audit committee. The study's results suggest a notable association between the effectiveness of the audit committee and the performance of Ethiopian manufacturing firms. This relationship is influenced by factors such as the size and composition of the company's board of directors.

2.5 Research Gap

Table 2.1: Research Gap

Author	Focus of previous study	Major findings	Research Gap
Mekonnen (2021)	Quality of financial reporting and firm ownership among Ethiopian private firms	Found a strong positive significant relationship between quality of financial reporting and performance	Focused on private owned companies as the current study focused on listed Manufacturing firms at NSE. The current study also analyzed accounting conservatism that was not addressed in this study.
Nasr & Ramakrish nan (2020)	Influence of quality of Financial Reporting on Financial Performance of Ethiopian firm	The study revealed a significant positive effect of earnings quality on performance	The study addresses financial reporting quality based on accounting conservatism and not only earnings quality and audit committee for the past study.
Ojeha, Mukoro & Kanya (2015)	Conducted a 5-year series study on financial reporting of agricultural firms in Kenya using primary data.	The study revealed that financial reporting influenced employee performance and improved performance	The current study instead focused on manufacturing firms, use secondary data and use 7-year period Other variables were used as recommended.
Mugwe, (2018)	financial reporting and performance of sugar industries in Kenya	The study found that Independence, composition, technical skills, and prudential requirements of the	Focuses on sugar firms and not all manufacturing firms. Dint address earning quality and accounting conservatism.

		committee are significant on FP.	The study investigated western region sugar firms that were 5 in number as current study looked at 8 manufacturing firms
Wasan & Mulch andani (2019)	The influence of audit committee meetings on FP Sacco Society	The study found that frequency of audit committee meetings affects FP positively	Current focus on audit committee meetings as general independent variable (IV) which left out earning quality and accounting conservatism that the current study considered.
Boshnak's (2021)	Moderating effect of directors' board size on the relationship between earnings quality and performance of manufacturing firms in Nigeria.	The study gave strong indicators that directors' board size had a significant effect on the relationship between earnings quality and performance of manufacturing firms in Nigeria.	The study failed to address earnings quality and accounting conservatism

2.6 Conceptual Framework

A conceptual framework provides a discussion among study variables (Mugenda, 2009).

Audit Committee Effectiveness
-Stock Owned by Directors/ Total Company Assets
-Number of Members on Audit Committees

Accounting Conservatism
- Assymetric Accruals to Cash Flow Measure = (Inventory+ Debtors-Creditors)
-Market to Book Ratio Formula=Market Value of Stock/ Book Value Per Share

Earnings Quality
-Quality of Earnings Ratio= Net Cash from Operating Activities/Net Income
-Receivables Accruals Ratio= (Sales in year t– Sales in year t-1)/ (Receivables in year t– Receivables in year t-1

Financial Performance
-ROA=Total Income/Total Assets

Size of Board of Directors
-Number of Directors

Independent Variables:

Moderating Variable

Source; Researcher, 2023

Dependent Variable

Figure 2.1 Conceptual Framework

The dimensions of Financial Reporting quality used were audit committee effectiveness, accounting conservatism, earnings quality, and size of the board of directors. Financial Reporting quality ranges from having information that is relevant, correct, comprehensive, and unbiased to having information that is not just biased or

incomplete but may be pure fabrication. The dependent variable is financial performance.

Accounting conservatism entails the cautious treatment and dealing with income and assets while overstating losses. Accounting conservatism was measured by ACCF measure and market to book ratio formula

Audit committee entails the board formed to oversee the audit activities of manufacturing firms. Audit committee effectiveness: Number of members on audit committees and quality of audit reports

Earnings quality amounts to total yields generated by a firm. Earnings quality was measured quality of Earnings Ratio and Receivables Accruals Ratio

The total number of significant decision-makers within the MS is directly correlated to the size of its board of directors. The size of the board of directors was established by counting the total number of directors. financial performance was determined by dividing total income by total assets.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

A research plan, according to Sekaran (2010), is the focal focus of any investigation. This chapter describes the methodological approach utilized in the research design, study population, sample size, data collection instruments, procedure, and data analysis.

3.2 Study Area

This study was carried out in all listed manufacturing firms actively listed NSE by December 2021. This are chosen based on reporting inadequacies assumptions.

3.3 Research Plan/Design

A mixed research design was utilized in the study to explain both causal and longitudinal research designs. Kariuki, Namusonge, and Orwa (2015) support the need for a mixed research design approach based on the benefits of combining several approaches. It also enables in-depth analysis of factors and study population elements, as well as the collection of enormous amounts of data in a highly effective manner.

3.4 Target Population

The term "target population" refers to the entire unit under investigation (Mugenda, 2018). The study's target population consists of the eight manufacturing companies listed on the NSE as of December 2021 (NSE, 2021). B.O.C Kenya Ltd, British American Tobacco Kenya Ltd, Carbacid Investments Ltd, East African Breweries Ltd,

Unga Group Ltd, Eveready East Africa Ltd, Kenya Orchards Ltd, and Flame Tree Group Holdings Ltd are among those involved.

3.5 Sample Size and Sampling technique

The study utilized a number of study technique with no instances of bias (Kothari, 2014). The population comprise of eight manufacturing firms listed on the NSE, all of which were conducted for the study. When a sample from a population is formed, there is always a margin for error, whereas the Census considers the entire population and is thus the most accurate.

3.6 Data Collection Tools

A data collection tool refers to mechanisms used to obtain data (Creswell, 2003). A secondary data collection tool commonly referred as document analysis assembled a 5 financial year data between 2017-2021. Ratios provided the basis upon which data was collected.

Table 3.1: Summary of measurement of variables

Labels	Variable	Measurement	Formula
	Iv		
ACE	**Audit committee effectiveness**	Number of members on audit committees	Number of members on audit committees
		Quality of audit reports	Quality of audit reports
AC	**Accounting conservatism**	ACCF measure	(Δ inventory+ Δdebtors+ Δother current assets-Δcreditors-Δother current liabilities- Depreciation)
		Market to Book Ratio Formula	Market Value of Stock/ Book Value Per Share
EQ	**Earnings quality**	Quality of Earnings Ratio	Net cash from operating activities/Net income
		Receivables Accruals Ratio	(Sales in year t–Sales in year t-1)/(Receivables in year t–Receivables in year t-1)
SB	**Size of board of directors**	-Number of directors	-Number of directors
	DV		
Y	**FP**	ROA	Total income/Total assets

3.7 Data Collection Procedure

According to Kothari (2014) procedures for data collection should be precise and simple. After approval of research proposal, a letter from the department of post graduate studies at Masinde Muliro University was obtained leading to subsequent application of research permit at NACOSTI. It was upon this that financial statements from listed manufacturing firms was assembled for analysis by help of STATA software.

3.8 Data Analysis

Data analysis is the process of reconciling and sorting data using computations. (Neumann, 2000). Data was converted to natural logs to reduce chances of multicollinearity.

Quantitative data was collected and descriptively presented using frequencies, percentages, means, and standard deviations. It has high ability for analysis of complex and huge data. Tables were used to display the information. The Jarque Bera test was used to determine data normality.

In inferential analysis, data was first converted to natural logarithms in order to remove chances of multi collinearity, unit root was measured using Augmented Ducker Filler (ADF) test and Levin Lin and Chu which is more robust. Autocorrelation was tested using Woodridge test (2002).

It also involved the conduction of Hausman test to determine whether random effect regression or random effect regression was used.

The independent variables were run against Dependent Variables and the Independent Variables that are insignificant were dropped.

Simple Bi-variate Regression Model

$$Y = \beta 0 + \beta 1 \sum_{1}^{n} X1 + e$$

$$Y = \beta 0 + \beta 2 \sum_{1}^{n} X2 + e$$

$$Y = \beta 0 + \beta 3 \sum_{1}^{n} X3 + e$$

Multiple Multivariate Regression Model

$$Y = \beta 0 + \beta 1 \sum_{1}^{n} X1 + \beta 2 \sum_{1}^{n} X2 + \beta 3 \sum_{1}^{n} X3 + e$$

Moderation Regression Model using hierarchical regression

$$Y = \beta 0 + \beta 1 \sum_{1}^{n} X1 + \beta 2 \sum_{1}^{n} X2 + \beta 3 \sum_{1}^{n} X3 + \beta 3 + \beta 5 \sum_{1}^{n} X1M + \beta 5 \sum_{1}^{n} X1M + \beta 6 \sum_{1}^{n} X2M + \beta 7 \sum_{1}^{n} X3M + e$$

Where:

Y is the FP (dependent variable)

β_0 is the regression constant,

β_1, β_2, β_3 and β_4 are the coefficients of IVs

X_1 is Audit committee effectiveness

X_2 is Accounting conservatism

X_3 is Earnings quality

M Size of board of directors

e = the error term

3.8.1 Diagnostic Tests

The best models are attained through the diagnostic tests. For this study Hausman test,

Multicollinearity test, Normality test and Linearity test will be tested.

3.8.1.1 Hausman Test

Hausman tested random and random effect model to be approached. Fixed effect illustrates that firms have similar characteristics while random effect firms have different characteristics. Hausman Test was conducted to establish whether to use random or random effect in telling objectivity. According to Borenstein, Hedges, Higgins and Rothstein, (2010) a critical P value less than 0.05 level of significance shows an alternative hypothesis that a random effect model is the best as P value more than 0.05 shows a random effect the null hypothesis.

3.8.1.2 Normality test

In regression models, it is essential to search for non-normal errors, both for process and conceptual purposes. On a strict research methodology level, the lack of gaussianity can frequently impair the uniformity of the simple estimation and testing process, necessitating the use of either a better method based on alternative distribution assumptions or robust alternatives with no distributional advantages. Otherwise, whether skewed and/or leptokurtic distributions should be used to better capture errors may be a statistically meaningful question. The assumption of normality is also important for the validity of inference processes, specification tests, and prediction (Javia, 2015). This study applied skewness, kurtosis and jarquebera for normality test. Kurtosis and Skewness: Skewness should be within the range of ±2. Kurtosis should be within the range of ±7.

3.8.1.3 Multicollinearity test

In multiple regression, multicollinearity is defined as the presence of greater inter-correlations between a set of variables. In this case, in reaction to minimal modifications in the model or the data, the coefficient estimates of multiple regression

can vary unpredictably. The replication of the same kind of variables resulted in multi-collinearity and usually happens when the factors are highly interconnected. The Variance Inflation Factors were used to test multicollinearity in this study (VIF). Variables with VIF more than five (5) or a tolerance value less than 0.2, according to (Myers, 1990), indicate the presence of multi-collinearity and are thus excluded from the multiple linear regression analysis. Furthermore, Pearson Correlation also helped establish multi-collinearity.

3.8.1.4 Unit Root Test

A unit root tells about stationarity. The unit root tests to be conducted were Levin Lin and Augmented Dickie Fuller due to their strength in detecting panel unit root (Levin Lin & Chu. 2002). Levin Lin and Chu Test (2002) is good for time series data and it asserts that when panel data contains unit root it is granted null hypothesis approach and for stationery panel data its termed as the alternative hypothesis. ADF helps in checking co integration between two stocks and merely attains residues which are later standardized then OLS regression conducted.

3.9 Ethical Considerations

It is critical that researchers become acquainted with and follow the institution's ethical code. This must be followed when creating research proposals, projects, dissertations, and theses (Saunders, 2012). Considering the study used secondary data, the researcher adhered to data sharing policies and confidentiality rules. Data shall also be reported accurately. Certification shall be sought from National Commission for Science Technology and Innovation (NACOSTI) and the university directorate before proceeding with the research.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter provides an exposition of the findings derived from an empirical investigation on the impact of financial reporting quality on the stock price of manufacturing firms listed on the NSE, along with a comprehensive examination of the aforementioned outcomes.

4.2 Diagnostic Tests

4.2.1 Normality Test

This study employed Jacque bera descriptive approach to ascertain normality. To ascertain whether sample data have a normal distribution, Jarque bera tests combine the goodness of fit test. (Kothari, 2014). Table 4.1 illustrates

Table 4.1 Normality Test

Variable	Jarque Bera adj chi2(2)	Prob>chi2
LN Audit Committee Effectiveness 1	5.03	0.54
LN Audit Committee Effectiveness 2	1.406	0.4951
LN Accounting conservatism 1	3.342	0.1881
LN Accounting conservatism 2	1.629	0.4428
LN Earning quality	4.582	0.1012
LN Board size	5.670	0.548
LN FP	1.620	0.418

LN: Natural log

Source: Field data (2023)

The Jarque Bera test is commonly employed to assess the normality of a given series.

The alternate hypothesis posits that the distribution of the series deviates from

normality, while the null hypothesis posits that it adheres to a usual distribution. The calculated P value for the Jarque-Bera test exceeds the specified significance level of 0.05, indicating that there is insufficient evidence to reject the null hypothesis of normal distribution for the data being analyzed.

4.2.2 Multicollinearity Diagnostic

The variation inflation factor (VIF) was employed as a means of assessing the presence of multi-collinearity. In general, the presence of multi-collinearity can be determined by assessing the rate of the variation inflation factor, which is considered to be absent when it is less than 10. The test conducted is displayed in Table 4.2 above. The VIF values, which were found to be below 10, indicate the absence of a multicollinearity issue. In addition, it was observed that the tolerance values were below one (Lind, Marchal & Wathen, 2008).

Table 4.2: Multicollinearity Diagnostic Criteria

Var	Eigenval	C_Number	C_Index	VIF	1/VIF	R2_xi,X
ACE~2	1.4635	1.0000	1.0000	1.2634	0.7915	0.2085
ACL~2	1.0132	1.4445	1.2019	1.2880	0.7764	0.2236
EQl~1	0.5233	2.7967	1.6723	1.0297	0.9711	0.0289

Source: Field data (2023)

4.3.3 Autocorrelation

The Wooldridge test (2002) was developed to examine autocorrelation in unbalanced panel data. The results from the table accept the null hypothesis. There is no Autocorrelation problem. The P value is greater than 0.05

Table 4.3: Wooldridge test for autocorrelation in panel data

H0: no first order autocorrelation

$F(1, 7) = 4.323$

$Prob > F = 0.0762$

4.3 Panel Unit Root Test

In order to ascertain the absence of unit roots as an indicator of the stationary nature of the panel data, a unit root test was conducted. In order to ascertain the stationarity of the series and mitigate the possibility of a flawed regression, unit root tests were conducted. This study employed many panel unit root tests known for their robustness, such as the Levin Lin and Chu panel unit root test and the Augmented Dickie-Fuller (ADF) Fisher chi-square test. The findings are presented in Table 4.4.

Table 4.4: Unit Root Tests

Variable	Levin (Prob.)	(ADF) (Prob.)
LN Audit Committee Effectiveness 1	-2.8050**	77.0196**
	(0.0030)	(0.0000)
LN Audit Committee Effectiveness 2	-36.7086**	38.9146**
	(0.0000)	(0.0009)
LN Accounting conservatism 1	5.5813**	28.7639**
	(0.0000)	(0.0087)
LN Accounting conservatism 2	-5.3327**	36.6596**
	(0.0000)	(0.0007)
LN Earning quality	-2.6245**	41.5114**
	(0.0050)	(0.0005)
LN Board size	-6.5640**	39.2423**
	(0.0000)	(0.0010)
LN FP	-2.7000**	72.3245**
	(0.0035)	(0.0000)

LN Natural log, * sig at 5% level, ** sig at 1% level, Values in parenthesis are probability values
Source: Field data (2023)

Several unit root tests were used to investigate whether or not the model's variables were stationary, with a focus on how well these tests performed for unbalanced panels. A stable autocorrelation is inferred when the mean variance does not change over time. Table 4.4 shows that the null hypothesis is rejected at the 1% and 5% significance levels, as indicated by the ** and * p-values, respectively. The null hypothesis of financial reporting quality non-stationarity is investigated in all panel unit root tests. If the p-value is greater than 0.05, then the null hypothesis (H0) that there are no unit roots is rejected, and vice versa. Both the Augmented Dickey-Fuller (ADF) Fisher chi-square test and the Levin Lin and Chu panel unit root test returned p-values lower than 0.05, indicating that there is no evidence for the occurrence of a unit root. The research indicates that after the problem of unit root testing has been fixed, the use of differencing is superfluous.

4.4 Pearson Correlation Analysis

Pearson correlation analysis was computed, this assisted in testing multi-collinearity. This is presented in Table 4.5.

Table 4.5: Pearson Correlation Analysis

	LN ACE1	LN ACE2	LN AC1	LN AC2	LN EQ1	LN EQ2	LN Sb
LN ACE1	1.0000						
LN ACE2	-0.3082	1.0000					
	0.0331						
LN AC1	-0.1092	-0.0218	1.0000				
		0.8833					
	0.4600						
LN AC2	-0.2397	0.4483	0.3124	1.0000			
	0.0008	0.0014	0.0036				
LN EQ1	0.0359	0.0232	-0.3919	-0.1401	1.0000		
	0.003	0.005	0.005	0.0024			
LN EQ2	0.0132	0.2106	-0.8051	-0.3357	0.2881	1.0000	
	0.0028	0.0015			0.001	0.0041	
			0.0000				
LN Sb	0.5606	-0.2463	-0.1013	-0.1071	0.0445	-0.0484	1.0000
	0.0000		0.0043	0.0046	0.0037	0.0039	
		0.0015					
LN FP	0.0355	0.0858	0.1623	-0.1254	-0.5255	-0.1937	0.0082
	0.0009	0.0021	0.004	0.0039	0.0001	0.0017	0.00055

LN natural log, ACE 1&2 audit committee effectiveness, AC1 &2 Accounting conservatism, EQ 1 & 2 Earnings quality, Sb Size of board

Source: Field data (2023)

The results show no case of high correlation among IVs as indicated with correlation coefficients less than 0.9. It means that the IVs did not exhibit multi-collinearity.

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Audit committee effectiveness was found to have a substantial positive relationship with outcomes, with correlation coefficients of 0.0009 for ACElog 1 and 0.0021 for ACElog 2. In a similar study looking at the efficiency of audit committees in 116 Oman-based businesses, Elghuweel, Ntim, Opong, and Avison (2017) came to similar conclusions. Empirical research has shown that an audit committee's presence and effectiveness has a favorable and statistically significant effect on a company's financial results. The knowledge and experience of an audit committee's members is crucial to a company's bottom line. This finding is consistent with the findings of Nasiri and Ramakrishnan (2020), who looked at the effect of audit committees on corporate performance in the Ethiopian environment. The results shown here contradict those found in Hamdan's (2020) study, which found that an active audit committee and its meetings improved the efficiency of 23 GCC organizations between 2014 and 2018. According to the data, there is no link between the number of audits a company in the Gulf Cooperation Council submits to and its bottom line.

A positive and weak link (r=0.004) between accounting conservatism and performance was found for ACLog1, whereas a positive and significant (r=0.0039) relationship was found for ACLog2. Lara, Osma, and Penalva's (2021) study on the correlation between conservative accounting practices and the financial health of Japanese publicly traded corporations is consistent with the findings shown here. It was shown that Japanese listed companies' FP was significantly affected by accounting conservatism. This confirms the results of an analysis conducted by Abed, Al-Badainah, and Serdaneh (2018), who found that 259 Jordanian manufacturers' bottom lines were negatively affected by cautious accounting practices. Although there was some diversity in the degree to which conservative accounting was practiced among different companies, it was generally accepted that conservatism had a major impact on business performance

by driving earnings. It contradicts Hamdan's (2021) study of how conservative accounting practices affect the bottom lines of Jordanian businesses. The study concluded that the low prevalence of conservative behaviors among the companies examined meant that conservatism had a negligible and negative impact on company value.

On the other hand, the correlation between earnings quality and performance was positive and significant for EQlog 1 at 0.0001 and for EQlog 2 at 0.0017. This research supports a 2013 study by Ashbaugh, LaFond, and Mayhew on the influence of earnings quality on information disclosure among 17 European states. The study discovered that the firm's sharing of information was significantly impacted by profits quality. It also concurs with Yahaya, Kutigi, and Mohammed's (2015) finding that the performance of deposit-taking institutions was significantly influenced by the quality of earnings. This finding disagrees with Tyokoso and Tsegba (2015) who conducted a study on listed oil firms in Nigeria during 2005-2014 financial years. The results were that discretionary accruals showed a negative insignificant influence on performance of oil firms.

4.6 Regression Results

A simple linear regression analysis was conducted to assess the influence of financial reporting quality on the performance of manufacturing firms listed on the NSE in Kenya.

4.6.1 Hausman Test

To assess whether to employ the random effect or random effect model to achieve the study's aims, a Hausman test was conducted. Random implies firm have similar

characteristics while random different characteristics. Random effects model was used after applying Hausman test implying firms under study have different characteristics. Table 4.6 shows the results.

Table 4.6: Hausman Test

	LN ROA
Chi-sq statistic	1.25
Prob	0.7412

Source: Field data (2022)

Results from Table 5 show that the random effect regression model was used because the prob>chi2 value was greater than the crucial P value at the 0.05 level of significance.

4.6.2 Effect of Audit Committee Effectiveness on performance of Manufacturing Firms Listed NSE

The study sought to establish the Effect of Audit Committee Effectiveness on performance of Manufacturing Firms Listed NSE. The null hypothesis Ho_1: Audit Committee Effectiveness has no significant effect on performance of Manufacturing Firms Listed NSE. This is illustrated in Table 4.7.

Table 4.7: Regression Random Effect of ROA on Audit Committee Effectiveness

Random-effects GLS regression	Number of obs = 48
Group variable: FIRMID	Number of groups = 8
R-sq:	Obs per group:
within = 0.272	min = 6
between = 0.0000	avg = 6.0
overall = 0.0091	max = 6
	Wald chi2(2) = 0.58

	FPLog	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	

corr(u_i, X) = 0   Prob > chi2   =   0.0046

FPLog	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
LN ACE1_SB	.0942714	.5138273	0.18	0.004	-.9128117	1.101354
LN ACE2_SB	.306913	.4189843	0.73	0.004	-.514281	1.128107
_cons	-1.057318	.2546742	-4.15	0.000	-1.55647	-.5581661
sigma_u	.11749455					
sigma_e	.37221596					
rho	.09061371	(fraction of variance due to u_i)				

Source: Field data (2023)

Based on the findings derived from the random effects model, a significant association is observed between the performance of Manufacturing Firms Listed on the NSE and the efficacy of the Audit Committee. Based on the analysis conducted, it is observed that Audit Committee Effectiveness is responsible for approximately 27.2% of the total variation in the performance of these firms. This is evident from the overall R square value of 0.272. The calculated p-value is 0.0046, which falls below the predetermined significance level of 0.05. Based on the analysis conducted, it has been determined that the audit committee's efficacy is represented by partial regression coefficients of 0.0942714 for ACE1 and 0.306913 for ACE2. The results of this study indicate a notable correlation between the efficacy of the audit committee and its performance metrics, implying that a marginal enhancement of 1% in the former is associated with a corresponding rise in the latter. The p-values of 0.004, which were found to be lower than the predetermined significance level of 0.05, provided additional evidence supporting the statistical significance of the association between Audit Committee Effectiveness (ACE1) and Audit Committee Effectiveness (ACE2). The model that has been described utilizes regression modeling techniques.

LN ROA=0.0942714-1.057318ACE1

LN ROA=0.306913-1.057318 ACE2

The research showed that the efficiency of audit committees was significantly related to the FP of NSE-listed industrial companies. In contrast to the null hypothesis, which held that no correlation existed between the two, this result suggests that there is. This suggests that improving the performance of manufacturing companies listed on the NSE can be achieved by strengthening the audit team. This study goes along with one that Elghuweel and his colleagues did in 2017 about how well audit panels worked in 116 Omani businesses. According to the study, the efficiency of the audit group had a big and positive effect on how well the companies' finances did. It also agrees with Nasiri and Ramakrishnan's (2020) study of how audit committee success affected businesses in Ethiopia. They found that the committee's expertise had a big effect on financial results. This study shows that Hamdan's (2020) claim that the diligent audit committee's sessions had an effect on the financial results of 23 Gulf Cooperation Council companies between 2014 and 2018 is false. The study found that there was no link between how well Gulf Cooperation Council businesses did financially and whether or not they had audit sessions.

4.6.3 Effect of Accounting Conservatism on performance of Manufacturing Firms Listed NSE

The research set out to measure how strictly adhered to accounting rules affect the financial standing of NSE-traded industrial companies. Manufacturing companies listed on the NSE are immune to the effects of accounting conservatism, according to Hypothesis 2. As shown in Table 4.7.

Table 4.8: Regression Random Effects of ROA on Accounting Conservatism

Random-effects GLS regression				Number of obs	=	48	
Group variable: FIRMID				Number of groups =		8	
R-sq:				Obs per group:			
within = 0.3680				min =	6		
between = 0.0367				avg =	6.0		
overall = 0.0066				max =	6		
				Wald chi2(2) =	0.84		
corr(u_i, X) = 0 (assumed)				Prob > chi2 =	0.035		

FPLog	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
LN AC1_SB	.2689959	.401359	0.67	0.003	-.5176534	1.055645
LN AC2_SB	-.0346095	.1147391	-0.30	0.020	-.2594939	.190275
_cons	-.8643643	.4766659	-1.81	0.070	-1.798612	.0698837
sigma_u	.17598814					
sigma_e	.37159756					
rho	.18320391	(fraction of variance due to u_i)				

Source: Field data (2023)

According to the results of the random effect model, Accounting Conservatism was responsible for 36.8% (Overall R square=0.3680) of the variation in the performance of Manufacturing Firms Listed on the NSE. The results showed that the appropriate p-value was 0.035. The accounting conservatism partial regression coefficient was 0.2689959 (AC1) and -0.0346095 (AC2), indicating that an increase of one percent in accounting conservatism over time and among manufacturing businesses causes an increase in return on assets of 0.2689959 and -0.0346095, respectively. The p-value for Accounting Conservatism was 0.000 (AC1) and 0.000 (AC2), which was lower than the chosen significance level of 0.05, further demonstrating the statistical significance of this association. The regression model is as shown below

LN LROA=-0.2689959 -0.8643643 AC1

LN LROA=-0.0346095 -0.8643643 AC2

The application of accounting conservatism demonstrates a statistically significant influence on industrial businesses listed on the NSE. Therefore, the researchers have refuted the null hypothesis that accounting conservatism does not have a substantial effect on manufacturing businesses listed on the NSE. This implies that manufacturing companies listed on the NSE may see advantages as a result of implementing accounting conservatism. This study provides corroborating evidence for a previous study conducted by Lara, Osma, and Penalva in 2021. The present study investigated the FP and accounting conservatism of firms listed in Japan. The research revealed that the implementation of conservative accounting practices has a significant impact on the financial performance of publicly traded corporations in Japan. In their study, Abed, Al-Badainah, and Serdaneh (2018) observed a significant impact of accounting conservatism on the FP of 259 manufacturing enterprises in Jordan. The ideology of conservatism played a significant role in driving the growth of earnings, so enhancing the overall performance of the organization. The findings of Hamdan's (2021) research on the relationship between conservative accounting and the financial success of Jordanian enterprises appear to be contradictory. The empirical findings suggest that conservatism policies implemented by the analyzed companies have a limited and adverse impact on corporate value.

4.6.4 Effect of Earnings Quality on performance of Manufacturing Firms Listed NSE

The purpose of this research was to examine how Earnings Quality affected the financial standing of NSE-listed manufacturing companies. Ho3: There is no

substantial relationship between earnings quality and NSE performance for manufacturing firms. Table 4.8 illustrates.

Table 4.9: Regression of Random Effects of ROA on Earnings Quality

Random-effects GLS regression			Number of obs	=	48	
Group variable: FIRMID			Number of groups	=	8	
R-sq:			Obs per group:			
within = 0.2873			min =		6	
between = 0.2505			avg =		6.0	
overall = 0.2761			max =		6	
			Wald chi2(2)	=	17.78	
corr(u_i, X) = 0 (assumed)			Prob > chi2	=	0.0001	

FPLog	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
LN EQ1_SB	-.3673058	.0893078	-4.11	0.000	-.5423459	-.1922656
LN EQ2_SB	-.0688908	.2123613	-0.32	0.746	-.4851113	.3473297
_cons	-1.14688	.0911626	-12.58	0.000	-1.325555	-.9682045
sigma_u	.20562127					
sigma_e	.31965755					
rho	.29267477	(fraction of variance due to u_i)				

Source: Field data (2023)

Earnings Quality was shown to be responsible for 28.7% (Overall R square=0.2873) of the variation in performance of Manufacturing Firms Listed NSE, according to the results of the random effect model. The results showed that the appropriate p-value was 0.0001. The partial regression coefficient for Earnings Quality was -0.3673058 (EQ1) and -0.0688908 (EQ2), respectively, showing that manufacturing firms' Return on Assets increases by -0.3673058 and -0.0688908% when Earnings Quality increases by 1% over time. The p-value for Earnings Quality was found to be lower than the established significance level of 0.05, at 0.036 (EQ1) and 0.029 (EQ2), indicating that this link is statistically significant. The regression model is displayed as follows.

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LN LROA=-0.3673058 -1.14688EQ1

LN LROA=-0.0688908 -1.14688 EQ2

The research discovered a statistically significant correlation between the quality of earnings and the performance of manufacturing firms listed on the NSE. The null hypothesis, positing that there is no relationship between Earnings Quality and the performance of manufacturing businesses listed on the NSE, was found to be invalid. In their study, Ashbaugh, LaFond, and Mayhew (2013) conducted an investigation on the impact of earnings quality on information disclosure across seventeen European countries. The researchers reported that their findings were consistent throughout the countries analyzed. The research revealed that the extent of a company's public disclosure was contingent upon its level of profitability. In a study conducted by Yahaya, Kutigi, and Mohammed (2015), it was determined that the profitability of deposit-taking institutions is influenced by the quality of earnings. The available statistics indicate that Nigerian oil firms have exhibited a lack of profitability in recent years, which contradicts the conclusions of Tyokoso and Tsegba (2015). The study revealed a modestly significant inverse relationship between discretionary accruals and the performance of oil companies. The observed correlation did not reach statistical significance.

4.6.5 Moderating effect of Board size on the Relationship between Quality of financial reporting and Performance of Manufacturing Firms Listed NSE

The study set out to determine if the number of directors on a company's board has any bearing on the correlation between reliable financial reporting and effective operations at NSE-listed manufacturing firms. The null hypothesis, denoted by Ho4, states that board size does not significantly moderate the association between the performance of

manufacturing enterprises listed on the NSE and the quality of financial reporting. This theory assumes that the size of the board has no appreciable moderating effect. To ascertain if the size of the board moderated the association between financial reporting accuracy and the performance of NSE-listed manufacturing firms, a hierarchical regression analysis was conducted. The regression findings are presented in Table 4.9, 4.10, and 4.11.

Table 4.10: Model 1-Independent and Dependent Variables

Source	SS	df	MS	Number of obs	=	48
				$F(3, 44)$	=	6.26
Model	1.3521482	3	.450716065	Prob > F	=	0.0012
Residual	3.16988552	44	.072042853	R-squared	=	0.2990
				Adj R-squared	=	0.2512
Total	4.52203372	47	.096213483	Root MSE	=	.26841

EQ2_SB	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LN ACE2	.592959	.2065669	2.87	0.005	.1766509	1.009267
LN AC2	-.6413798	.1917608	-3.34	0.002	-1.027848	-.2549114
LN EQ1	.0903532	.0540824	1.67	0.002	-.0186427	.1993491
_cons	3.674609	1.116281	3.29	0.002	1.424893	5.924325

Source: Field data (2023)

In the first model, Return on Assets is the DV and financial reporting Quality is the IV. According to the derived R square value of 0.2990, there is a significant correlation between the success of manufacturing companies and the caliber of financial reporting among manufacturing companies listed on the NSE. The computed P-value of 0.0012 indicates that there is significant evidence to support the claim that Quality of financial reporting is a very important predictor of Performance in the context of NSE-listed Manufacturing Firms. Accounting Conservatism (p=0.002), Earning Quality (p=0.002), and Audit Committee Effectiveness (p=0.005) all showed statistical

significance inside the model, according to the analysis. Also demonstrated to be statistically significant was the Quality of Financial Reporting.

ROA=3.674609+ 0.592959ACE-0.6413798AC+0.0903532EQ

The research undertaken by Boshnak (2021) regarding the impact of board size on the level of profitability and performance within Nigerian manufacturing enterprises is supported empirically by the findings of the current study. The moderating role of board size in the relationship between performance and earnings quality is examined in the Boshnak study. This study shows a connection between a board of directors' size and the operational and financial success of Nigerian manufacturing companies. The results of the investigation by Alrayyes and Al Khaldy (2019) were similar. The current study examined the effect of board size on the performance and accuracy of financial reporting of manufacturing businesses in Ethiopia. This study is related to the previous one. The study provides solid data supporting a significant association between board size and the effectiveness and quality of Ethiopian manufacturing companies' financial reporting. Nasr and Ntim (2018), in contrast to the aforementioned claim, presented other findings. The study's conclusions showed that the size of the board of directors had no discernible effect on Ethiopia's manufacturing industry's performance or its adherence to conservative accounting practices. This suggests that it does, though.

Table 11: Model 2-Independent, Moderating and Dependent Variables

Source	SS	df	MS		Number of obs	=	48
					$F(4, 43)$	=	4.66
Model	1.36758636	4	.341896591		Prob > F	=	0.0033
Residual	3.15444736	43	.073359241		R-squared	=	0.3024
					Adj R-squared	=	0.2375
Total	4.52203372	47	.096213483		Root MSE	=	.27085

EQ2_SB	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LN ACE2	.5706493	.2140435	2.67	0.011	.1389894	1.002309
LN AC2	-.640248	.1935205	-3.31	0.002	-1.030519	-.2499767
LN EQ1	.0916887	.0546518	1.68	0.001	-.0185273	.2019047
LN SB2	-.1983217	.4323145	-0.46	0.649	-1.070167	.6735236
_cons	3.814107	1.166756	3.27	0.002	1.461119	6.167094

R-Square Diff. Model 2 - Model 1 = 0.003 $F(1,43)$ = 0.210 p = 0.449

Source: Field data (2023)

ROA is a DV in Model 2, along with the quality of financial reporting and board size, which is a moderating variable. Quality of financial reporting substantially influences 30.24% of the variation in Quality of financial reporting of manufacturing enterprises, according to the model of independent, moderating, and DVs, which had a R square of 0.3024. R squared increased from 0.2990 to 0.3024 with the introduction of additive board size. The increase was shown by P=0.003 despite the fact that board size had a substantial impact. The next diagram represents the second regression model.

ROA=3.814107 +0.5706493ACE -0.640248AC +0.0916887EQ -0.1983217SB

According to the study, there is a link between the financial success of manufacturing firms listed on the NSE and the size of the board of directors. This hypothesis is

supported by the fact that it has a beta coefficient of -0.1983217. Because the calculated p-value (0.449) was less than the preset significance criterion of 0.05, the connection between the variables was declared statistically significant. According to Boshnak's study from 2021, there is a relationship between the success of manufacturing enterprises in Nigeria and the size of the directors' board. These results concur with those of Boshnak. This study shows a substantial relationship between the size of directors' boards, the performance of industrial enterprises in Nigeria, and the quality of earnings. The study results that are described in this article serve as empirical proof. According to Alrayyes and Al Khaldy's research from 2019, the size of the board of directors has a moderating effect on the relationship between Ethiopian manufacturing enterprises' performance and the accuracy of their financial reporting. According to the research done by Alrayyes and Al Khaldy, the size of the directors' board has an impact on the performance and the quality of the financial reporting of Ethiopian manufacturing companies. The study found a strong correlation between the number of directors on boards of directors and the interaction between the effectiveness of financial reporting and the performance of manufacturing enterprises in Ethiopia. This result contrasts with that of the study by Nasr and Ntim (2018), which came to the conclusion that there was no correlation between the size of the directors' board and the effect of accounting conservatism on the performance of manufacturing firms in Ethiopia.

Table 12: Model 3-Independent, Moderating, Interaction and Dependent Variables

Source	SS	df	MS		
				Number of obs = 48	
				F(7, 40) = 3.50	
Model	1.71710786	7	.245301123	Prob > F = 0.0051	
Residual	2.80492586	40	.070123147	R-squared = 0.3797	
				Adj R-squared = 0.2712	
Total	4.52203372	47	.096213483	Root MSE = .26481	

EQ2_SB	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LNACE2	1.573699	2.046222	0.77	0.446	-2.561869	5.709268
LN AC2	2.394029	2.499438	0.96	0.344	-2.657523	7.445581
LN EQ2	-.3669521	.5755487	-0.64	0.527	-1.530179	.7962753
LN SB	21.59598	19.00529	1.14	0.263	-16.81515	60.0071
LNACE2SB	-1.360896	2.771319	-0.49	0.626	-6.961941	4.240149
LNAC2SB	-3.982099	3.318931	-1.20	0.237	-10.68991	2.725711
LNEQ1SB|	.5996588	.7538227	0.80	0.431	-.9238736	2.123191
_cons		-12.81766	14.29309	-0.90	0.375	-41.70507	16.06975

R-Square Diff. Model 3 - Model 2 = 0.077 F(3,40) = 1.661 p = 0.189

Model	R2	F(df)	p	R2 change	F(df) change	p
1:	0.299	6.256(3,44)	0.001			
2:	0.302	4.661(4,43)	0.003	0. 003	0.210(1,43)	0.649
3:	0.380	3.498(7,40)	0.005	0.077	1.661(3,40)	0.189

Source: Field data (2023)

The third model includes both a DV (ROA) and independent factors (such as the accuracy of financial statements). In addition, this model accounts for moderating factors like board size. There is interaction between the IVs and the moderating factors. With a R squared score of 0.3797, Quality of financial reporting is likely to account for around 37.97% of manufacturing variance. The coefficient of determination (R2)

improved from 0.302 to 0.380 once interaction terms (IV*MV) were included. P=0.077 indicates a statistically significant shift. The growing trend in the correlation between the quality of financial reporting and the performance of NSE-listed manufacturing firms implies that firm size plays a key role in this relationship. The two of them have grown closer together. According to the findings, the quality of financial reporting and the performance of manufacturing firms listed on the NSE were only moderately affected by the size of the board. The inquiry results showed a substantial effect, hence the null hypothesis was rejected. When researching the effect of board size on profits quality and performance in Nigerian manufacturing businesses, Boshnak (2021) found similar conclusions. According to Boshnak's research, a larger board is associated with higher profits quality and performance. Based on the data gathered, it was discovered that the board of directors' composition significantly affects the dynamic between earnings quality and the performance of manufacturing enterprises in Nigeria. Additionally, the results of Alrayyes and Al Khaldy (2019), who looked at the effect of a company's board of directors on the connection between financial reporting quality and the profitability of manufacturing firms in Ethiopia, are in line with the present study. The study found that the financial reporting accuracy of Ethiopian manufacturing enterprises was significantly correlated with the size of their boards of directors. Nasr and Ntim (2018) found no significant correlation between board size and the FP of industrial firms in Ethiopia, which contradicts the results of the current study.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The results, analysis, and suggestions from the study are summed up here. It suggests directions for future study.

5.2 Summary of the Findings

This study's main goal was to investigate how the quality of financial reporting can affect the FP of Kenyan industrial businesses traded on the Nairobi Stock Exchange. This study looked at how profit quality, accounting conservatism, and the efficacy of audit committees affected the Financial Performance of industrial businesses listed on Kenya's NSE. This study's goal is to evaluate how board size may affect the precision and effectiveness of Financial Reports for Kenyan industrial companies listed on the NSE. The information used in this study was gathered from secondary sources, including as the NSE-listed industrial companies' public financial filings. Using financial ratios, it was possible to quantify the study's constituent parts. The random effects model was used in conjunction with the Hausman test. We determined the most important variables and then looked at their interactions after performing a linear regression analysis on each individual variable. A hierarchical regression analysis was carried out to determine whether the size of the board had a moderating effect. This research was carried out using STATA 15.00, a statistical program. This section provides a succinct summary of the findings.

The Jarque-Bera test creates a descriptive statistical summary using measurements of skewness and kurtosis. When determining whether a given series adheres to anticipated statistical features, the Jarque-Bera test is widely used. The alternative hypothesis claimed that the series deviates from the null hypothesis's assumption that

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it follows a normal distribution. The data in this instance appear to follow a normal distribution, as indicated by the Jarque-Bera test's p-value being greater than 0.05.

5.2.1 Effect of Audit Committee Effectiveness on performance of Manufacturing Firms

The primary goal of this research was to determine the role that strong audit committees play in the success of Nairobi Stock Exchange (NSE)-listed Kenyan industrial firms. Panel data from Pearson's correlation shows a substantial positive relationship between the efficiency of audit committees and the Financial Performance of Kenyan industrial enterprises listed on the NSE, with a p-value of 0.0046 (p0.05). Therefore, the financial outcomes of industrial businesses listed on Kenya's NSE are significantly influenced by the knowledge and experience of audit committees. Therefore, we may rule out the initial hypothesis.

5.2.2 Effect of Accounting conservatism on performance of Manufacturing Firms

The second goal of the study was to investigate the effect that using conservative accounting procedures has on the current financial situation of Kenyan manufacturing companies that are listed on the NSE. According to the results of the Pearson correlation analysis on the panel data (p = 0.035 and p = 0.05), accounting conservatism had a positive association with monetary outcomes. This was shown by the significance levels of both analyses. Accounting conservativeness has the effect of negatively influencing the financial results of Kenyan industrial companies that are listed on the Nairobi Stock Exchange (NSE). As a direct consequence of this, we are able to discount the second potential explanation.

5.2.3 Effect of Earnings Quality on performance of Manufacturing Firms

Third, this research set out to evaluate whether or not the quality of earnings influences the Financial Performance of manufacturing firms trading on the Nairobi Stock Exchange (NSE) in Kenya. A random regression analysis conducted on Kenyan manufacturing companies listed on the Nairobi Stock Exchange found a positive and statistically significant correlation between earnings quality and Financial Performance. A p-value of 0.0001 (p0.05) indicates that this correlation is highly significant. This means that the fortunes of industrial firms trading on the Kenyan Stock Exchange (NSE) depend critically on the quality of their profits. This disproved the original null hypothesis, which had been the working assumption up until this point.

5.2.4 Moderating Effect of Directors' Board Size On Financial Reporting Quality and Financial Performance of Manufacturing Firms

The study also sought to answer the question of whether or not the size of a company's board of directors affects the reliability of its financial statements. In a hierarchical regression study of Kenyan manufacturing firms listed on the NSE, board size was found to significantly affect the correlation between financial reporting quality and firm performance. At the $p = 0.449$ significance level, a decline in R^2's importance becomes evident. This meant that no argument could be advanced to downplay the significance.

5.3 Conclusion

The results provide grounds for the following conclusions

The main goal of this study was to ascertain whether the existence and performance of an audit committee had any effect on the performance of manufacturing companies listed on Kenya's NSE. Industrial enterprises trading on Kenya's NSE should see improved financial results as a result of the audit committee's expertise and knowledge growing. The efficiency of the audit committees is essential when evaluating the financial standing of Kenyan industrial organizations listed on the NSE.

The second aim of our study was to investigate the impact of adopting more rigorous accounting methods on the Financial Performance of Kenyan manufacturing companies listed on the NSE. Given that it concentrates primarily on providing services to industrial firms, Kenya's NSE stands to benefit financially greatly from the adoption of more conservative accounting rules. Strict NSE accounting regulations have hampered the overall Financial Performance of industrial businesses registered on the NSE in Kenya.

The third goal was to determine the level of financial success that Kenyan manufacturers with stock listed on the NSE had. Manufacturers listed on Kenya's NSE would be in a very beneficial position if sales considerably increased. Due to the low quality of their profits, Kenyan manufacturers listed on the NSE have recently faced significant problems. These issues are the responsibility of the NSE.

The fourth goal of the study was to evaluate the accessibility and clarity of information provided by Kenyan manufacturers that are listed on the NSE. The size of the board and accurate financial reporting were shown to be strongly correlated when looking at

Kenyan industrial enterprises that were listed on the NSE. According to the data that was gathered and reviewed, there were higher levels of financial success when there were more women on corporate boards.

5.4 Recommendation

The findings guided following recommendations:

According to the findings of the study, there is a significant correlation between the efficiency of the audit committees of manufacturing companies that are listed on the Nairobi Stock Exchange (NSE) in Kenya and the Financial Performance of those companies. Therefore, in order to maximize the generation of revenues, it is recommended to increase the total number of auditors as well as the stock holdings of auditors.

According to the findings of the study, the level of financial conservatism practiced by accounting firms has a substantial impact on the Financial Performance of manufacturing companies that are listed on the Nairobi Stock Exchange (NSE). Therefore, in order to guarantee increased profitability, it is absolutely necessary to have open disclosure of the company's inventories, debtors, and creditors.

The results of the research suggested that the quality of audited profits has a significant impact on the financial success of manufacturing companies that are listed on the NSE. As a result, it is essential to evaluate capital inflows and outflows in an objective manner in order to improve the performance of the corporation.

According to the findings of the empirical research, the composition of the board of directors has a major impact on the moderation procedure. Therefore, in order to

improve overall performance, it is essential to evaluate both the number of directors and the qualities they possess at the same time.

5.5 Suggestion for Further Studies

Listed manufacturing companies are 8 in number hence a study on all manufacturing firms can be conducted.

It is conceivable to do a comparable investigation on the influence of financial reporting quality on performance inside alternative sectors, such as local governments or agricultural enterprises.

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Appendix 1: List of Manufacturing Firms Listed NSE

1.   B.O.C Kenya Limited

2.   British American Tobacco Kenya Limited

3.   Carbacid Investments Limited

4.   East African Breweries Limited

5.   Unga Group Limited

6.   Eveready East Africa Limited

7.   Kenya Orchards Limited

8.   Flame Tree Group Holdings Limited

Appendix I1: DOCUMENT REVIEW SHEET

Variable	Description	Years				
		2017	2018	2019	2020	2021
Audit committee effectiveness	Number of members on audit committees					
	Quality of audit reports					
Accounting conservatism **(ACCF measure)**						
Market to Book Ratio	Market value of stock					
	Book value per share					
Earnings quality **(Quality of Earnings Ratio)**	Net cash from operating activities					
	Net income					

Receivables Accruals Ratio	Sales in year t–Sales in /					
	(Receivables in year t– Receivables in year t-1 year t-1)					
Size of board of directors	Number of directors					
Size of the firm	Total Assets					
FP **(ROA)**	Total income					
	Total assets					

Accounting conservatism (assymetric accruals to cash flow measure= inventory+debtors-creditors)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	1,322,505.00	1,587,879.00	1,719,419.00	2,612,555.00	1,735,447.00	582,191.00
British A Tobacco K	1,455,333.00	2,011,312.00	2,260,947.00	1,308,917.00	1,920,786.00	1,799,860.00
Carbacid Investments	3,590,432.00	3,522,446.00	3,668,730.00	4,062,323.00	4,286,277.00	4,032,653.00
East African Breweries	2,288,083.00	2,561,810.00	2,150,842.00	2,279,332.00	2,204,217.00	3,912,285.00
Unga Group	3,698,499.00	4,146,282.00	4,388,295.00	3,923,304.00	4,042,493.00	2,323,994.00
Eveready East Africa	12,403,027	11,074,319	11,952,853	13,008,763	14,341,330	14,297,209
Kenya Orchards	2,827,520.00	2,976,150.00	3,135,072.00	3,828,594.00	4,094,923.00	4,621,537.00
Flame T G Holdings	1,788,204.00	1,877,067.00	2,075,575.00	2,141,112.00	3,663,571.00	4,012,358.00

Accounting Conservatism (**Market to Book Ratio Formula=**Market Value of Stock/ Book Value Per Share)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	223351.5385	138154.3023	235606.7347	229776.2745	228113.0189	277043.1034
British A Tobacco K	396976.5517	296162.0513	282279.5122	269770.2326	260271.3333	330453.617
Carbacid Investments	461755.1923	422027.3684	492946.2	636406.25	411936.3333	364022.7143
East African Breweries	378615.2941	273548.8235	387049.3103	240686.1702	220522.8846	468753.5849
Unga Group	1026971.25	1002315	1018250	984315.7692	1000478.077	963037.4074
Eveready East	652587.1429	611720.4167	565567.8571	513303.2258	370065.7143	305588.0556
Kenya Orchards	541463.1818	528734.7826	577895	557590	565159.5652	542137.0833
Flame T G Holdings	1157473.684	1052241.905	893548.4	821217.1429	823432.8571	675080

OPERATING RATIOS :Audit Committee Effectiveness

Manufacturing firms	2016	Number of members on audit committees 2017	2018	2019	2020	2021
B.O.C Kenya	4	5	5	5	4	9
British A Tobacco K	3	5	5	5	5	9
Carbacid Investments	4	5	5	5	6	8
East African Breweries	5	5	5	5	7	7
Unga Group	5	5	3	5	5	6
Eveready East Africa	4	5	5	5	5	5
Kenya Orchards	5	5	5	5	5	5
Flame T G Holdings	3	5	5	5	5	5

Appendix II1: Raw Data

Eanings Quality (**Quality of Earnings Ratio**= Net cash from operating activities/Net income)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	0.605075107	0.559719733	0.62768595	0.831572563	1.660752298	1.708179295
British A Tobacco K	0.645270239	0.61592437	3.234419999	0.980039448	14.24026883	8.529484455
Carbacid Investments	11.57573381	0.262448068	10.53884834	0.149109865	0.149906648	4.135855865
East African Breweries	0.317200634	0.311871702	4.136437508	0.266677633	0.201064084	0.234443351
Unga Group	0.461130879	0.127823976	4.332890222	0.230231092	0.159961585	0.163837381
Eveready East Africa	0.013207788	0.126702316	2.902298798	0.099860744	0.136843335	0.121729637
Kenya Orchards	0.464403721	0.560310429	10.39269044	0.416010225	0.386818299	0.334850467
Flame T G Holdings	0.880838999	0.557187722	90.49507798	0.140249442	0.118848613	0.120773801

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Financial Perfomance (**ROA**=Total income/Total assets)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	0.151216999	0.162741271	0.143129719	0.083760671	0.034321326	0.04379819
British A Tobacco K	0.155919719	0.158064366	0.040415784	0.079861343	0.004869324	0.009838755
Carbacid Investments	0.004828668	0.201606513	0.128430707	0.354596225	0.1677424	0.197703838
East African Breweries	0.258275786	0.260421473	0.266269893	0.197581471	0.179677004	0.206713222
Unga Group	0.102374707	0.094171748	0.102740149	0.106688491	0.074354128	0.078207616
Eveready East Africa	0.138049322	0.07686763	0.108024814	0.101530292	0.079874041	0.076894572
Kenya Orchards	0.113599803	0.071422035	0.057736844	0.060077408	0.068382461	0.092229398
Flame T G Holdings	0.020191404	0.028309665	0.016804111	0.073123058	0.091639537	0.091332631

Earnings Quality(Receivables Accruals Ratio= (Sales in year t–Sales in year t-1)/ (Receivables in year t–Receivables in year t-1)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	3.276782318	1.752582533	1.539328249	0.982284009	1.361299423	3.803737949
British A Tobacco K	3.124161962	1.303501893	1.226229446	1.608428953	1.046116017	1.108236752
Carbacid Investments	0.937825866	0.884207167	0.833010357	0.758050505	0.671328521	0.545670555
East African Breweries	0.499686856	0.653179588	0.61290689	0.542604588	0.5157269	0.24710163
Unga Group	0.399622117	0.336605663	0.077252584	0.328880964	0.329336872	0.563790612
Eveready East Africa	0.366579545	0.236741329	0.222707148	0.161837063	0.140110087	0.139514712
Kenya Orchards	1.082999236	0.271185928	0.319080691	0.235413052	0.217946711	0.17426367
Flame T G Holdings	1.883006637	1.659275881	1.563201527	1.438246108	0.785435849	0.548430624

Audit Committee Effectiveness-(Stock owned by directors/ total company assets)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	0.500409314	0.516505095	0.480850298	0.308440684	0.246729354	0.308635039
British A Tobacco K	0.559264232	0.547927374	0.500776686	0.30453687	0.266174492	0.377660175
Carbacid Investments	1.298929481	1.207221178	1.220168694	1.218434966	0.548979932	0.564777963
East African Breweries	0.649782874	0.664297744	0.48563087	0.31424741	0.211135204	0.469517304
Unga Group	1.026070446	0.705812349	0.727300233	0.819446059	0.464377321	0.425289383
Eveready East Africa	0.651563568	0.458904895	0.42706111	0.387896907	0.287694567	0.21569564
Kenya Orchards	0.626230941	0.454220671	0.27049823	0.272773176	0.270287518	0.262044177
Flame T G Holdings	1.222299971	1.056226898	0.507225198	0.510853432	0.48959728	0.506240286

Size of board of directors-(Number of Directors)

Manufacturing firms	2016	2017	2018	2019	2020	2021
B.O.C Kenya	6	5	6	5	8	10
British A Tobacco K	4	5	5	5	5	9
Carbacid Investments	5	5	5	5	8	9
East African Breweries	5	6	7	6	7	10
Unga Group	6	5	6	6	5	6
Eveready East Africa	5	7	5	6	6	5
Kenya Orchards	5	5	5	5	5	10
Flame T G Holdings	6	5	6	6	6	6

Appendix IV: Approval by NACOSTI

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 367273

Date of Issue: 22/October/2022

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This is to Certify that Mr.. Victor Odhiambo Malimu of Masinde Muliro University of Science and Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kakamega on the topic: Influence of Financial Reporting Quality on Financial Performance of Manufacturing Firms Listed in the Nairobi Stocks Exchange in Kenya for the period ending : 22/October/2023.

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Appendix V: Proposal Approval by School of Graduate Studies

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

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Kenya

Directorate of Postgraduate Studies

Ref: MMU/COR: 509099

14th December 2022

Malimu Victor
MBA/G/01-53239/2018,
P.O. Box 190-50100,
KAKAMEGA.

Dear, Mr. Malimu,

RE: APPROVAL OF PROPOSAL

I am pleased to inform you that the Directorate of Postgraduate Studies has considered and approved your Masters proposal entitled '*Effect of Quality of Financial Reporting on Performance of Manufacturing Firms Listed in the Nairobi Securities Exchange in Kenya*' and appointed the following as supervisors:

1. Prof. Alala Ondiek   - SOBE, MMUST
2. Dr. Maniagi Musiega   - SOBE, MMUST

You are required to submit through your supervisor(s) progress reports every three months to the Director Postgraduate Studies. Such reports should be copied to the following: Chairman, School of Business and Economics Graduate Studies Committee and Chairman, Accounting and Finance Department. Kindly adhere to research ethics consideration in conducting research.

It is the policy and regulations of the University that you observe a deadline of two years from the date of registration to complete your Master's thesis. Do not hesitate to consult this office in case of any problem encountered in the course of your work.

We wish you the best in your research and hope the study will make original contribution to knowledge.

Yours Sincerely,
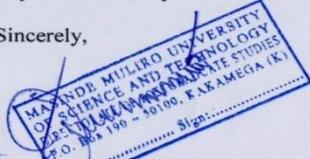
Prof. Stephen O. Odebero, PhD, FIEEP
DIRECTOR, DIRECTORATE OF POSTGRADUATE STUDIES