EFFECT OF FINANCIAL REPORTING QUALITY ON THE MARKET PRICE PER SHARE OF FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

Student's Declaration

This project is my original work and has not been presented for a degree in any other University or any other award.

Signature……Date……

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Supervisor's Declaration

I, the undersigned, do hereby confirm that this project has been submitted for examination purpose with my approval as the university supervisor:

Signature……Date……

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Kenya College of Accountancy

DEDICATION

To the God Almighty for the wisdom and health that enabled me to write this project. To my family and friends for their moral and financial support during my entire period of preparing these project.

ACKNOWLEDGEMENT

My sincere gratitude to the God Almighty for the good health and wisdom He provided to me and that enabled me to write this project. I also thank my Supervisor for his patience, moral and academic support that he provided me during the writing of the project. Finally, I extend my gratitude to my family and friends for their encouragement and financial support.

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LIST OF ABBREVIANTION

CFA: Certified Financial Analyst

EPS: Earnings Per Share

FASB: Financial Accounting Standards Board

IASB: International Accounting Standards Board

IASC: International Accounting Standards Committee

IFRS: International Financial Reporting Standards

MAX: Maximum

MIN: Minimum

MPS: Market Price Per share

NAPS: Net Assets Per Share

NiCE: Nijmegen Centre for Economics

NSE: Nairobi Securities Exchange

OBS: Observations

P/E RATIO: Price Earnings Ratio

ROE: Return on Equity

STD DEV: Standard Deviation

VIF: Variance Inflation Factor

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ABSTRACT

In the recent past both the local and the international markets have a witnessed declining quality of financial reporting. The poor quality financial reports have led to a mismatch between the inherent values of shares and the book values hence contributing to market inefficiencies. This study sought to provide an empirical evidence of the impact of poor financial reporting quality on the Market Price per Share. The objective of the study was to examine the effect of financial report quality on the share price. Financial reporting quality was measured in terms of the qualitative characteristics of identified by IASB.During the investigations, the descriptive research design was applied. The target population comprised of firms listed in the Nairobi Securities Exchange between 2011 and 2017. However, since financial institution are under tight regulations that greatly impact on their reporting, they were not investigated. From the population, a sample of 60 firms were sampled using the stratified random sampling method. Out of the 60, 13 were dropped for either having incomplete information or not having data on their share prices. The study used content analysis in examining quality of financial reports of the listed entities. Thereafter, inferential statistics of correlation and regression were used to show the relationship between financial reporting quality and the Market Price per Share.The findings of the study were that a change in Relevance, Faithful Presentation, Understandability and Timeliness leads to an increase in share prices while an increase in comparability leads to a decrease in share prices.

CHAPTER ONE

INTRODUCTION

1.1.Background Information

Financial reporting involves the periodic communication to the various stakeholders (through general purpose financial statements) the financial performance and the financial position of an entity (Financial reporting council of Canada, 2013). General purpose financial statements are the ones meant to satisfy the needs of users who by virtue of their position are not able to demand financial statements that are tailored to their needs (IASB, 2016). The IASB (2016) further documents that for a financial statement to be complete it should include a statement of financial position, a statement of financial performance, a statement of cash flow, a statement of changes in equity and notes containing the significant accounting policies and other explanatory information.

These financial statements are usually prepared annually although some entities prepare interim financial statements. The objective of preparing these reports is to provide information about the financial position, financial performance and cash flow position of an entity that is useful to a wide range of users in making economic decisions (IASB, 2016). These financial reports play a crucial role to both the entity and the outside users. They provide a significant source of information to the various stakeholders of an entity in making investment decisions (Lopes et al, 2012). The information is useful in understanding the amounts, the timing and the uncertainty of prospective cash receipt from dividends or interests and the proceeds from the sale, the redemption, or the maturity of securities or

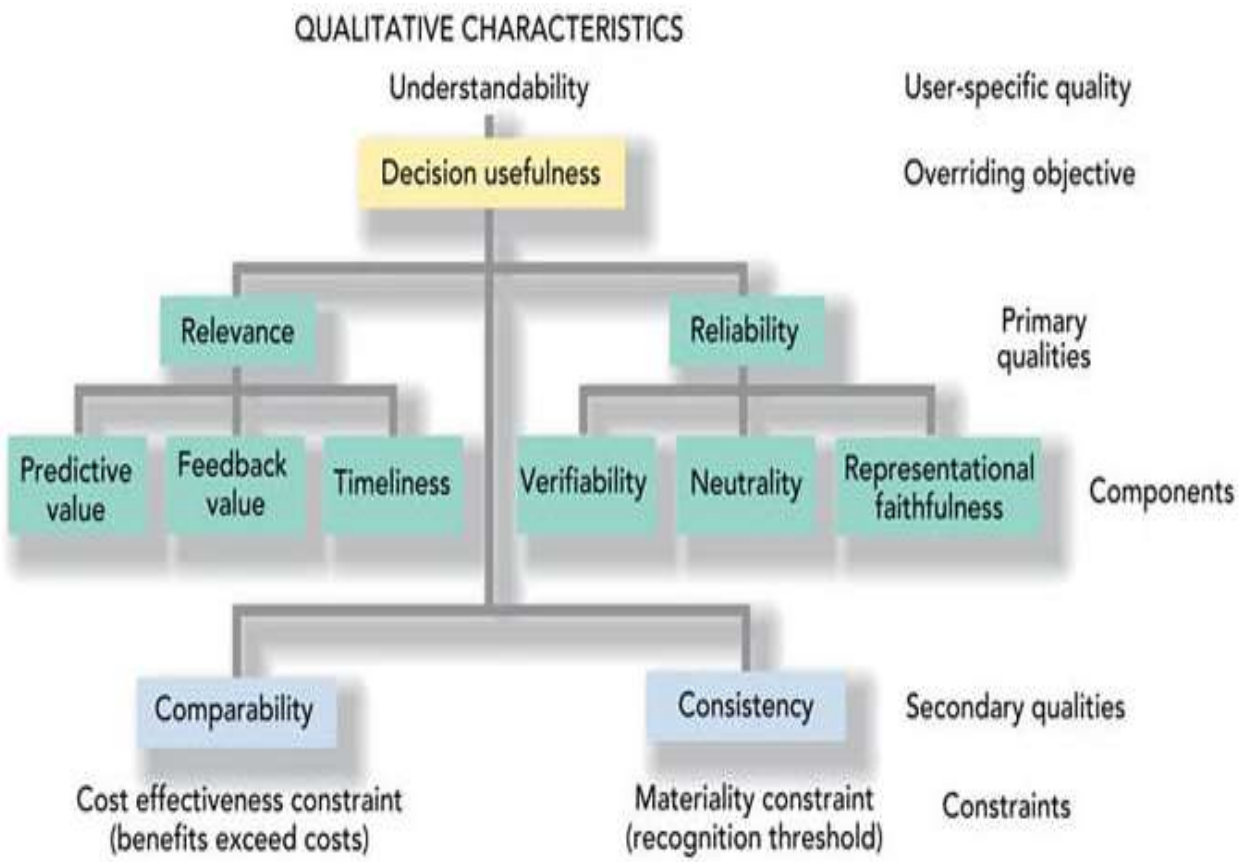
loans.With financial reports, investors can determine whether to buy or sell an entity's stock (lopes et al, 2012); creditors can determine if to extent credit facility to an entity or not (Beatty and Weber, 2003).

1.1.1. Financial reporting quality

Considering that the various users highly depend on the financial statements in their economic decisions, it's imperative that these financial statements contain information that is useful to them. Tasios and Bekiaris (2012) submitted that "Financial reporting is a two-party transaction in which the issuer of the financial reports provides them to the users with the expectation that these will help them enhance their financial decisions. The potential users of financial report vary widely and include creditors, suppliers, financial analyst, government authorities and the public, or are related to the company parties. The issue of quality in financial report is a prime concern not only for the final users but for the whole society as it affects economic decisions which may have significant impacts".

On the other hand, lopes et al (2012) submitted that high quality financial reporting not only increase the credit worthiness of an entity, but it also assists users of financial statement understand how their resources were utilized in the generation of returns. According to them, High quality financial statement can also assist in predicting of the performance of an entity even at the times of credit crunch (lopes et al, 2012).It is therefore of great importance for an entity to ensure that its financial reports are of great quality in order to influence decisions of the various stakeholders of the entity (Herath and Albarqi, 2017), otherwise poor accounting quality will make it hard for the creditors determine the credit worthiness of an entity and make it harder for investors to determine when to buy or sell their investment (Bharath et al, 2008).

IASB defines Financial reporting quality in terms of qualitative characteristics that distinguish useful financial information. According to FASB (2016) and IASB (2016), a financial statement would be useful to the various stakeholder and be of good quality if it has certain qualitative characteristics. These qualitative characteristics pinpoint to the preparers of the reports which information are useful to the various stakeholders in decision making (IASB, 2016). IASB (2016) documents that "If financial information is to be useful, it must be relevant and faithfully represent what it purports to present. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable". Further, IASB (2016) has categorized these characteristics into two; the fundamental qualities and the enhancing qualities. Fundamental qualities are relevance and faithful presentation while the enhancing qualities are comparability, verifiability, timeliness and understandability. The FASB on the other hand categorized these qualitative characteristics into primary and secondary characteristics. Primary quality includes relevance and reliability while comparability and consistency are secondary characteristics. FASB has further broken down the primary quality to components. In the previous studies, faithful representation (reliability), relevance and verifiability have been studied together as value relevance of financial reports; to be consistent with these studies this study also used value relevance to refer to faithful representation (reliability), relevance and verifiability. Figure 1.1 below depicts the qualitative characteristics of financial information as outlined by FASB.



(source: Intermediate Accounting by Kieso, D. E., Weygandt, J. J., & Warfield, T. D., 2018).

Figure 1. Qualitative Characteristics of Financial Statements

1.1.2. Market Price per Share

The market price per share is also known as the share price or the market value of a share. This the amount an investor is willing to pay to acquire one share of a company. It is the value at which a share of a company is traded in the market (Paramasivan and Subramanian, 2009). For the companies listed in the stock market, the market value of the entity often refers to the price of the share as quoted in that stock exchange (Paramasivan and Subramanian, 2009). Additionally, in the market, there is usually the lowest price that investors are usually willing to buy a certain share price, this is referred to the ask price or

the offer price of the share. In a given market, investors usually allocate prices to the shares of the various companies based on their perception of the current and future performance of the entity. Therefore, the market price of an entity can also be said to be the price allocated to a share of a company by the market participants.

Market price per share plays an important role in a given economy. To investors in the market, it is a significant pillar in then determining the current value of their investment. Therefore, its assist them in determining the financial position of their investment (Wilson, 2018). To entities listed in the market, the market price per share is a source of feedback to it on investor perception about the entity. Management of an entity can use the share price to determine the feeling of the market participant about the future performance of the entity. Additionally, the market price per share helps in establishing the efficiency of a market. Efficient markets are those markets whose share price are directly correlated to the EPS of n entity (Pandey, 2015)

1.1.3. Nairobi Securities Exchange

The Nairobi securities is the main facility in Kenya where securities are traded. The securities traded are debts and equity related. The Nairobi Securities Exchange was established in 1954, then it was known as the Nairobi Stock Exchange. Later in 2011, the name was changed to Nairobi Securities Exchange. Since inception, this bourse has witnessed several developments among them being the implementation of live trading in 2006, the increase in trading hours from 3 hours (10.00 A.M. to 1.00 P.M) to 6 hours in 2008 and the automation of trading of government bonds in 2009, with the system being further enhanced in 2014. Currently, the Nairobi Securities exchange has 65 listed entities. Further,

the market has a capitalization of Kshs. 2,528.08 Billion making it an important driver of economic development in Kenya ("Nairobi Securities Exchange,", 2018).

1.1.4. Financial reporting quality and the Market Price Per Share

In an efficient market, the share price usually reflects all the available information at a time, Fama (1991), one of the proponents of market efficiency hypotheses, noted that in an efficient market the share price would disclose the information contained there in the financial statements. Further, the share movement in share price is usually directly proportionate to the change in intrinsic value of the share (Degutis and Novickyte, 2014). However, the movement in the market price of shares can only be in tandem with the movement of the intrinsic value, if and only if there is efficient flow of information between the management and the market participant. This in agreement with the findings of Dadbeh et al (2013) who noted that the main hindrance to the market share not reflecting the change in company values was the uneven investor awareness (information asymmetry) and the transaction cost in the market. Dadbeh et al (2013) further noted that information asymmetry has been a long concern for regulators and the heart of many regulations.

According to Ma Tao (2012) the effects of information asymmetry in the market can be reduced by good financial reporting quality. This, according to Ma Tao (2012), is consistent to "the theory that high quality public disclosure of information can reduce the uninformed (foreign) investors' information disadvantage relative to the informed (local) investors and reduce the cost of equity" (Nurcholisah, 2016). The statement by Ma Tao (2012) was echoed by Li &Wang who noted that high financial reporting quality increases efficiency of the

market through reduction of information asymmetry and increasing information symmetry between managers and shareholders.

1.2.Statement of the Problem

In an efficient market and based on the arguments advanced by Palea (2013), entities known for elaborate structures of producing quality financial reports will tend to have higher share prices compared to other entities. Moreover, this entity will have a lower spread between the inherent value and the prices at the market (Salehi et al, 2014). This is because high quality financial disclosures reduce the information asymmetry in the market (Lopes, 2012). Through quality financial reports, a change in performance is usually effectively communicated in the market. In response, participants in the market would take rational decisions that would lead in price correction. The resultant is share price reflecting both the past, present and future performance of the entity in addition to be equivalent to its intrinsic value (Wang et al, 2013). Unfortunately, this is not the case in the modern markets.

The modern market, especially in the developing economies including Kenya, are highly characterized by high spread between the inherent value of shares and their market value. This is highly attributed to the low quality financial reports in the market caused by financial statement fraud. According ACFE (2017), financial statement fraud is the "deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amount or disclosure in the financial statement to deceive financial user". ACFE (2017) further notes that financial statement fraud is not committed for personal gains but rather companies target maintaining being market leaders a

position that would have been achieved had the true position reflected in the financial reports. Since share prices highly depends on investor behaviors and most investors usually depend on these reports in arriving at investment decisions, the resultant is the share price in the market not reflecting the true position of the entityfirm's performance.

In advancing the argument Salehi et al (2014) argued that these poor quality financial reports have greatly impacted on share prices because the market is usually flooded with common investors. These investors highly depend on these financial reports in arriving at their decisions and when the financial reports are of poor quality there arise a mismatch of information between the management of a company and the market participants (including investors), hence resulting to information asymmetry. Salehi et al (2014) further argued that when information asymmetry increases, the real value of investments differs greatly from the prices expected by investors. The inefficiencies in the markets is usually because of the imperfection in the markets where various participants possess different level of information.

The fall of Enron and the financial crisis witnessed internationally; the recent turbulence of KQ and Uchumi shares in Kenya are clear evidence of the effects of poor financial reporting quality caused by financial statement fraud and its effect to the market. For instance, in the case of Kenya Airways, the various reports including the bank statement were forged to show a stronger a company contrary to what was going on within the organization. In Uchumi Supermarket on the other hand, investors were not clearly informed on the purpose of the proceeds from the right issue. This misinformation led to the misappropriation of the funds. The discovery of the activities at Kenya Airways and Uchumi revealed that the investors were being fed by incorrect information and thus the share prices at the market (which was

due to investor reactions to the incorrect information) was not in tandem with the actual book values of the companies

Based on the above, by no doubt financial statement fraud which leads to poor financial reporting quality has greatly contributed to the inefficiencies in the market. It's this negative impact that has motivated this study. These papers aimed at advancing the existing empirical studies by providing a model that explains the relationship between financial reporting quality and the market price of shares in the Kenyan market. This was achieved by analyzing the relationship existing between the financial reporting quality and the share price of firms listed in the Nairobi Securities Exchange.

1.3.General Objectives

To examine the effect of financial reporting quality on the Market Price per Shareof firmslisted in the Nairobi Securities Exchange (NSE).

1.4.Specific Objectives

1.4.1. To establish how value relevance of financial reports affect Market Price per Share.

1.4.2. To establish the effect of Comparability of financial reports on Market Price per Share.

1.4.3. To establish the effect of understandability of financial reports on Market Price per Share.

1.4.4. To establish the effect of timeliness of financial reports on Market Price per Share.

1.5.Research Questions

1.5.1. How does value relevance of financial reports affect Market Price per Share?

1.5.2. What is the effect of Comparability of financial reports on Market Price per Share?

1.5.3. What is the effect of understandability of financial reports on Market Price per Share?

1.5.4. What is the effect of timeliness of financial reports on Market Price per Share?

1.6.Significance of the Study

This is among the few studies on financial reporting quality and the share price from the Kenyan context. Thus, provides empirical evidence on the effects of financial reporting quality and the Market Price per Share from the Kenyan perspective.

The work of this paper will go a long way in influencing the policies of various entities on financial reporting. Entities in Kenya have been preparing financial reports to comply with various regulatory requirements without understanding the benefits that would accrue to the entity by enhancing the financial reporting quality. Therefore, with the empirical evidence provided in this paper, the management teams in the country will be able to appreciate the greatness of financial reporting quality in their entities.

1.7.Justification of the Study

Business entities are increasingly focusing their attention on quality financial reports. For policy makers to effectively make decisions on quality financial reporting they need to have enough knowledge on financial reporting quality. Most importantly, they need to understand the impact of financial reporting quality on the share price, hence the need for this study. It is expected that this study will not only assist decision makers in understanding the relationship between the quality of financial report and the share price but will also provide the basis for setting the optimum level of financial reporting quality.

1.8.Scope of the Study

The study focused on the effect of financial reporting quality (independent variables) on Market Price per share (dependent variable) among entities listed in the Nairobi Securities Exchange. To ascertain the relationship between financial reporting quality and Market Price per Share, entities listed in the Nairobi Securities Exchange were observed. The financial reports for the year ended 2011 to 2017 were analyzed. Additionally, the NiCE indexing model wasused to measure the financial reporting quality.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Framework

2.1.1. Efficient market hypotheses

Louis Bachelier's work is what contributed to the development of the efficient market hypotheses. In his proposition, louis Bachelier argued that prices in the stock market usually move in a random manner like a drunkard person. Bachelier proposed the efficient market hypotheses as explanation for the random movement in share prices at the market. Other than Louis Bachelier, Eugene Fama also contributed greatly to the development of the Efficient Market hypotheses (Dimson and Mussavian, 2000).

According to the efficient market hypotheses, an efficient market is that whose prices reflect all available information (Pandey, 2015). Whereas available information can be past, present or future information. In an efficient market, the share prices would reflect all fundamental information about companies (Degutis and Novickyte, 2014). Allen et al (2011) argued that in an efficient market the market price of the shares is usually equivalent to its intrinsic value hence impossible for an investor to earn more than the market price at any given time. This is achieved by the market price adjusting quickly to any change in information and without bias before traders have time to gain profit from the information asymmetry (Degutis and Novickyte, 2014).

The theory is based on two pillars; all available information is reflected in the current prices and its impossible for invested to earn risk-weighted returns (Degutis and Novickyte, 2014).

Based on the information reflected in the market price, the Efficient Market Theory categorizes the markets into three groups; the weak efficient stock markets, which are the markets which reflects only the past information; the semi strong efficient market whose price reflect the current and past information; and the strong efficient markets which have current prices reflecting all the information available in the market (published and unpublished).

Recognizing the important role of information quality in the market, the Efficient Market Hypotheses assumes that there is information asymmetry where most of the information is of good quality, published and is publicly available (Pandey, 2015). The lack of these would lead to inefficient market with its share prices differing greatly from inherent values. This is in line with the arguments furthered by Salehi et al (2014) that information asymmetry makes market price of shares to differ from inherent value.

2.1.2. Agency theory

The first scholars who proposed agency theory were Stephen Ross and Barry Mitnick. Agency theory is based on agency relationship. In an agency relationship, one party (the principal) engages the services of another party (the agent) to act on his behalf (Jensen and Meckling, 1976). In finance there are two major types of agency relationship-Managers and Shareholders; Managers and creditors. The shareholders and the managers have the principal-agent relationship where the managers are running the business on behalf of the shareholders (Pandey, 2015), while managers and creditors have principal-agent relationship because creditors lend funds to an entity expecting that the management of the firm effectively invest them on their behalf. At times the managers may not necessarily act in the best interest of the shareholders and they may pursue their own interest to the expense of the principal (Pandey, 2015) giving rise to conflict. The conflict between the interest of the agent and those of the principal is known as agency problem

and results to agency cost. This cost if not bundled well could result to high share prices (Abdeldayem, 2015).

To reduce the agency cost, managers tend to increase the quality of financial reporting. In addition, entities with higher debt to equity ratio would disclose more information than those with lower debt to equity ratio. The increased quality of disclosure not only reduces the agency costs but also enables the creditors in risk assessments. Shareholders on the on the hand are likely to demand for higher quality of information to assure themselves that the managers are acting in their interest. Additionally, Managers on their end would tend to make voluntary information to avoid the shareholders from misinterpreting their actions. Thus, the existence of the agency cost is a justification for quality financial reports. Consequently, a justification for relevancy, faithful representation / reliability, comparability, timeliness and understandability of financial reports

2.1.3. Institutional theory

The institutional theory was propounded by Meyer and Rowan (1983). The theory brings about institutionalization of issues. According to the theory the institutional environment of an organization can influence the development of various issues in the entity, including the formal structure. Rowe and Wehrmeyer (2001) in advancing the arguments by Meyer and Rowan (1983) noted that "the history, custom and force of habit within the organization establish congruence among organizational associates around the decorum of recurring routine. These re-enacted activities eventually attain a rule like status".

The phenomenon of how activities become rules in an organization makes the institutional theory a significant element in understanding financial reporting and financial reporting quality in an institution. The theory is useful in explaining how organizational norms and customs over

time contribute to financial reporting quality as it focuses on how these activities get imbedded into institutions or accepted practices (Rowe and Wehrmeyer, 2001). For instance, going by the arguments of these theory, the practices used in the day to day preparation of financial reports if used continually for a long time might end up being institutionalized. Further, the practices imposed by auditors might also be institutionalized. This is evidenced in entities audited by same audit firm tending to have same pattern of financial reporting.

Zucker (1983) a major contributor of the theory noted that this institutionalization might lead to resistance in Change. The worst-case scenario would an instance where an entity has practices that contributes to poor financial reporting quality, the institutionalization of such practices might result to resistance to adoption of best practices in financial reporting. These ends up to poor financial reports in terms of relevancy, comparability, faithful representation/reliability and understandability. Further, the reports might hinder timely release of financial reports. Since these reports are important aspects in determining investor behaviors in the market, the institutionalization eventually affects the share price of the entity.

2.2. Empirical Review from global perspective

2.2.1. Effects of value relevance of financial reports on Market Price Per Share.

The effects of relevance and reliability (faithful representation) has greatly been studied under the value relevance studies. According to Barth et al (2001) these studies jointly test effects of share prices on firm's value. Kadous et al (2012) further noted that, in reviewing the financial statements the users of financial statements never consider relevance and reliability independently, but rather they considered them jointly hence the value relevance studies.

Vijitha and Nimalathasan (2014) studied effect of value relevance of accounting on share prices. The study was conducted among manufacturing firms listed in the Colombo Securities Exchange. A sample of 20 companies were selected for the study and data for 5 years period from 2008 to 2012 were used in the study. Further, secondary data was collected from accounting books, studies by various authors and financial statements published by the entities. The findings of these study were that EPS, NAPS and ROE were significantly correlated at 1% significance level. Further, the study revealed that P/E ratio was negatively correlated with share price at 5% significance level. Thus, providing empirical evidence that value relevance of accounting is not only correlated to share price but also has an impact on the share price at 1% and 10% significance level.

Uwuigbe 2016 conducted a study on value relevance of financial statement and share prices. The study was conducted among banks listed in the Nigerian Stock Exchange. 15 banks were purposively sampled among the listed banks. The study used secondary data collected from fact book and audited annual reports of the selected entities for the period covering 2010-2014. In data analysis, the fixed effect data method analysis was applied and modified Edward Bell Ohlson (EBO) model equation was applied. The findings of the study were that there was a positive relationship between EPS and last day share price.

Pervan and Bartulovic (2014) conducted a study on value relevance of accounting information. The study was conducted among the South Eastern European Countries. These countries are Croatia, Slovenia, Serbia, Bosnia and Herzegovina. Subjective decision was made to select entities listed in 2005 with share in total market turnover of not less than 0.5%. These resulted to 97 entities being selected from the various capital markets. Secondary data was collected from web pages containing information of the selected companies. Correlation and regression model

was used in the data analysis. The results of the study indicated that value relevance has an impact on the market. Further, the study found out that there was no increase in explanatory power of accounting information but rather there was a decrease in the value relevance of the accounting information.

Camodeca et al (2014) did a study on value relevance of accounting in the Italian and UK stock exchange. The entities listed in the Italian Stock Exchange and the London Stock Exchange for the period 2011 to 2013 were studied. From the companies, 100 entities were selected. For sampling purpose, entities were ranked based on their market capitalization and the first 50 companies were selected from each stock exchange under study. The market capitalization was based on the data available in the last trading date in August, 2014. The Edward-Bell-Ohlson (E.B.O.) model transformed into a regression model was used in data analysis and the results indicated that that value relevance has an impact on the market. Further, the study showed that value relevance in UK was related to cashflows while in Italia it was related to earnings.

Hassan and Haque (2017) on the other hand conducted a study on the role of accounting information in assessing stock prices in Bangladesh. The study was conducted among the various entities listed under the six broad categories in the Dhaka Stock Exchange (D.S.E.). From the entities, 93 companies were selected as sample for the study. Secondary data was collected from the companies' official websites and from the official website of the Dhaka Stock Exchange. The Ohlson valuation model was used. Further, the adjusted R2 and the estimated regression coefficients were used to examine the role of accounting information in assessing stock prices. The findings of these study showed that EPS and Book Value have an impact on share prices hence indicating that they have informative power.

Irsath et al (2015) examined the impact of value relevance on stock prices of entities listed in the Colombo Stock exchange. The study period was 2010 to 2014. The study focused on the manufacturing, beverage, food and tobacco entities listed in the stock exchange. From these entities a total of 22 entities were selected as samples. Further, Secondary data was used and were generated from the entities' website and published annual report. Descriptive correlation and regression was used in the study and the results were that EPS, DPS and NAVPS were not only correlated to the share price but also had an impact on the share price.

Another study was the one conducted by Glezakos (2012). Glezakos (2012) conducted a study on the impact of accounting information on share price. The study was conducted among entities listed in the Athens Stock Exchange. The study period was 1998 to 2008. From the entities listed, 38 companies were randomly selected as samples. Moreover, the Ohlsons model in the form of regression model was used in determining the impact accounting information on market prices. The results indicated that the EPS and Book value per share have an impact on share prices. Further, the results depicted that the explanatory power of earnings and the book value increases with time.

Khanaga (2011) studied the value relevance of accounting information in the United Arabs Emirates. The study was meant to examine the impact of adoption of IFRS on value relevance. The selection of samples was based on the companies that were listed before and after the adoption of IFRS and those that had financial year end of December. These criteria resulted to 136 entities. Regression and portfolio approaches were used in data analysis. The results indicated a drop-in value relevance after adoption of IFRS. Moreover, the results showed that cashflow incremental information content increased after the adoption of IFRS.

2.2.2. Effect of Comparability of financial report on the Market Price per Share

Several studies have conducted on the effect of comparability on the share price. Among them was the one conducted by Kim et al (2016). Kim et al conducted a study on Financial statement comparability and expected crash risk. In the research, Kim et al (2016) used the comparability measure developed by De Franco, Kothari and Verdi (2011) to establish the impact of comparability of financial statement on ex ante crash risk. The study used firms that traded option between 1996 and 2016. Baseline model in the form of regression model was used. The findings indicated that expected crash risk decreased with increased comparability of financial statements. The study also provided an empirical evidence that comparability reduces the asymmetric investor reactions to bad and good news.

A similar study was conducted by Choi et al (2017). The study was titled financial statement comparability and informativeness of stock prices about future earnings. Choi et al (2017), in their study, aimed at investigating if financial statement comparability enhances the ability of current period returns to reflect future earnings. Initial sample for the study include firm-year observation at the intersection of all Compustat XPF files and CRSP database from 1992 to 2012. Based on the criteria established by the author. These samples were further filtered resulting to 32,154 firm-year observations with all the required data to estimate the regression model. The baseline regression model was used, the study utilized the future earning response coefficient and the results of this study indicated that compatibility improves informativeness of stock prices and allows investors to better anticipate future firm performance.

Baik et al (n.d.) on the other hand, in their study titled “Does financial statement comparability reduce stock price delay, investigated if the comparability of financial statements reduces stock price delays. The objective of the study was to investigate whether greater financial statement

comparability increases timely pricing of economic shocks. The findings of these study showed that there was a negative relationship between comparability of financial statements and the stock price delay. Further, the findings showed that comparability of financial statement is a more important factor in the price discovery process for smaller firms and those with lower analyst following institutional holdings, and stock turnover.

Starlings (2017) conducted a study on financial statement comparability and investor responsiveness to earnings news. The study investigated the role of comparability of financial statements in stock price sensitivity. The Standard and the Poor's Compustats database was the source of firm-level data and earnings report date for the period 1985 to 2012. The share prices and the stock returns were obtained from the Centre for research in Security prices. In addition, the final sample for the study consisted of 33,460 firm-year observations for the ACOMP sample, 24,127 firm-year observations for the ECOMP samples and 19,859 firm-year observations for the DCOMP samples. The results of these suggested that comparability increased response to positive earnings surprises. In addition, the study found comparability of financial statement is more informative among the speculative stocks in the market.

2.2.3. Effect of timeliness of financial reports on Market Price per Share.

Timeliness of financial reports plays a significant role on the decisions of users of financial statements. It is its significance that have led various researchers to investigate the effects of timeliness on share price. One of these is the one conducted by Kieruj (2013). The study was titled "The effect of timeliness of financial disclosures on post-announcement abnormal returns". Kieruj (2013) conducted a research to establish how timeliness of financial information affects the stock price reaction after the announcements of earnings. In the study a sample of 500 companies were selected. The study period was from year 2010 to 2011. Moreover,

announcements were categorized into good news and bad news. Further, Unexpected earnings, firm size, systematic risks, debt to equity ratio and conservatism were used as control variables. After testing the effect of reporting lag using regression analysis, the results showed that there was significant relationship between timeliness of bad news and stock reaction. Further, the findings showed thatgood news was the best aspect in predicting stock returns.

Another research on the effects of timeliness of financial reports was conducted by Fujianti (2016) in their paper-Analysis market reaction on timeliness reporting. The paper was aimed at examining the role of Good Corporate Governance in monitoring and suppressing the timeliness of financial report. This was achieved by sampling a total of 96 companies from the one listed in the Indonesian Stock Exchange in 2013. Logistic regression and independent t test was used for data analysis. The findings were that institutional ownership, independent board and audit committee are significant factors that contribute to timeliness of financial reports. However, management ownership and board size contributed immensely to untimely delivery of financial reports. This research also found that timeliness of financial reports has no impact on the share price.

A similar study was conducted by Huang et al (2017). The study examined the timeliness of financial reporting and fair value among the US banks. The objective of the study was to examine the link between fair values at the stock market and the reporting lag within a sample of U.S. banking institution. The results indicated that less verifiable fair value information is associated with longer earning announcement lag and audit report lag. Further the results show that the longer earning announcement lags was due to the additional time of managerial estimation and long audit report lags brought by additional trainings for auditors.

2.2.4. Effect of understandability of financial reports on Market Price per Share.

The research by Barth (2008) is among few research made on the impact of understandability. The study by Barth (2008) is titled "Financial statement understandability based on explanatory notes". The article was as a resultant of the author's observations, analyses and personal conclusions over the development of IFRS. The study also looked at the impact of IFRS at national and international level. Although the research by Barth (2008) did not fully examine the effects of understandability of financial statement on share prices, the findings of the research provide a great foundation for investigating the effect of understandability on share prices. According to the study, transparency is the ability of financial reports to represent the economics of an entity in a manner that is understandable by the users of financial statement. This research points out that understandability brought by transparency is an important aspect of financial reporting quality.

2.3.Empirical review from the Kenyan perspective

In Kenya, despite the losses witnesses by investors due to poor financial reporting, very little has been done to examine the effects of the various elements of financial reporting quality share price. This study is aimed at filling this gap by providing an empirical evidence on the effect of financial reporting Quality on share prices at the Nairobi Securities Exchange.

2.4.Operationalization of variables

2.4.1. Indicators of Financial Reporting Quality

2.4.1.1. Relevance

Information is relevant if it is useful to the users when they are arriving at economic decisions. Further, the information should assist the users evaluate the past, present and future performance

of the entity (IASB, 2016). The element of relevance is in line with the conceptual framework as it emphasizes on the usefulness of information for decision making (Cheung, Evans, & Wright, 2010). Entities therefore have a duty of ensuring that information provided in the financial statement are relevant by disclosing information about the future of the entity, the opportunities and risks that the entity faces and how major events and transactions in the economy impacted on the entities (Beest et al, 2009).

2.4.1.2. Faithful representation (Reliability)

For there to be quality in financial reporting, the information should faithfully present the financial information. IASB (2016) noted that, an information faithfully presents a financial information if it's neutral, complete and free from error. Information is complete if it contains all the information necessary for the users to understand what is being communicated, while it's neutral when it is free from any form of prejudice (IASB, 2016). Although accuracy is one condition that needs to be met for information to faithfully present financial information, complete accuracy cannot be achieved as some information are estimates based on the management judgments and assumptions. However, a certain level of accuracy needs to be achieved for the financial statement to be said to faithfully present financial information (IASB, 2016; Beet et al, 2009).

"Reliability as a quality of financial reporting used to be considered as the primary factor of accounting information. In FASB's old framework, reliability was the primary quality, and it was comprised of representational faithfulness, neutrality and verifiability. Moreover, faithful presentation is comprised of completeness, neutrality and accuracy. FASB also believes that reliability is one of the critical qualities to accounting information" (Downen 2014; Herath and Albarqi 2017).

2.4.1.3. Timeliness

The IASB considers timeliness as an enhancing attribute of financial report. Herath and Albarqi (2017) noted that timeliness requires that information be presented to users before they lose the ability to impact on their decision (Herath and Albarqi, 2017). However, IASB (2016) noted that "Some information may continue to be timely long after the end of reporting period because, for example, some users may need to identify and assess trend). According to Beest et al (2009), to assess the quality of timeliness one needs to consider the period that it took the auditors to sign and issued their report and the time it took the entity to publish their report after the year end.

2.4.1.4. Comparability

Comparability as an attribute of quality financial reports requires that financial statements should enable users of financial statement study them and draw differences (Herath and Albarqi, 2017). Users of financial statement should be able to compare between period and among companies of the same or different periods (Cheung et al, 2010). For comparability to be possible, users should be presented with at least two financial statement (IASB, 2016). The IASB (2010) further submitted that comparability can only be achieved if the financial statements satisfy the fundamental characteristics (Relevance and Faithful presentation). According to IASB, "A faithful representation of relevant economic phenomena should naturally possess some degree of comparability with a faithful presentation of similar relevant economic phenomenon by another reporting entity." According to Beest et al (2009), an entity would achieve the element of comparability if it presents policies and explanation of policies. Beest et al (2009) further noted that comparability can be enhanced by maintaining consistency in the treatments of various items in the financial statement and also by presenting ratios and graphs.

2.4.1.5. Understandability

Understandability is a very crucial element of quality financial report. The financial statements should be "clearly and concisely" presented (IASB, 2016). However, this attribute does not bur entities that are complex and further explanations and noteswould not make them less complex (IASB, 2016). According to IASB (2016) , information is understandable if a reasonable knowledge person can get the message passed. Herath and Albarqi (2017) noted that the best way the attribute of understandability can be achieved is through effective communication.

2.4.2. Measurement of financial reporting quality

In investigating the effect of financial reporting quality on share price, financial reporting quality was defined in terms of enhancing and fundamental qualities of financial reports.These qualitative characteristics were used in measuring the financial reporting quality of firms. The study applied the NiCE indexing model for measuring the financial reporting quality. The NiCE model was developed by Nijmegen Centre for Economics. "NiCE developed the comprehensive financial reporting quality measurement in the form of index quality measurement based on the IASB and FASB qualitative characteristics." (Yurisandi and Puspitasari, 2011). Appendix 1 shows the NiCE indexing model used in the measuring of financial reporting quality.

2.4.3. Market Price per Share

Market price per share is the price an investor would pay to acquire a share of the economy. It's the value the investors allocate an entity in a given day. For the listed entities, these prices are usually quoted in the securities exchange. This study used the average of MPS of 30days following the date of approval of the financial report.

2.5. Conceptual Framework

Beest at al (2009) operationalized financial reporting quality exclusively in terms of qualitative characteristics of financial reports. Considering the existing empirical evidence that support the view that various aspects of financial reporting quality affects share price, the following conceptual framework was developed for the study.

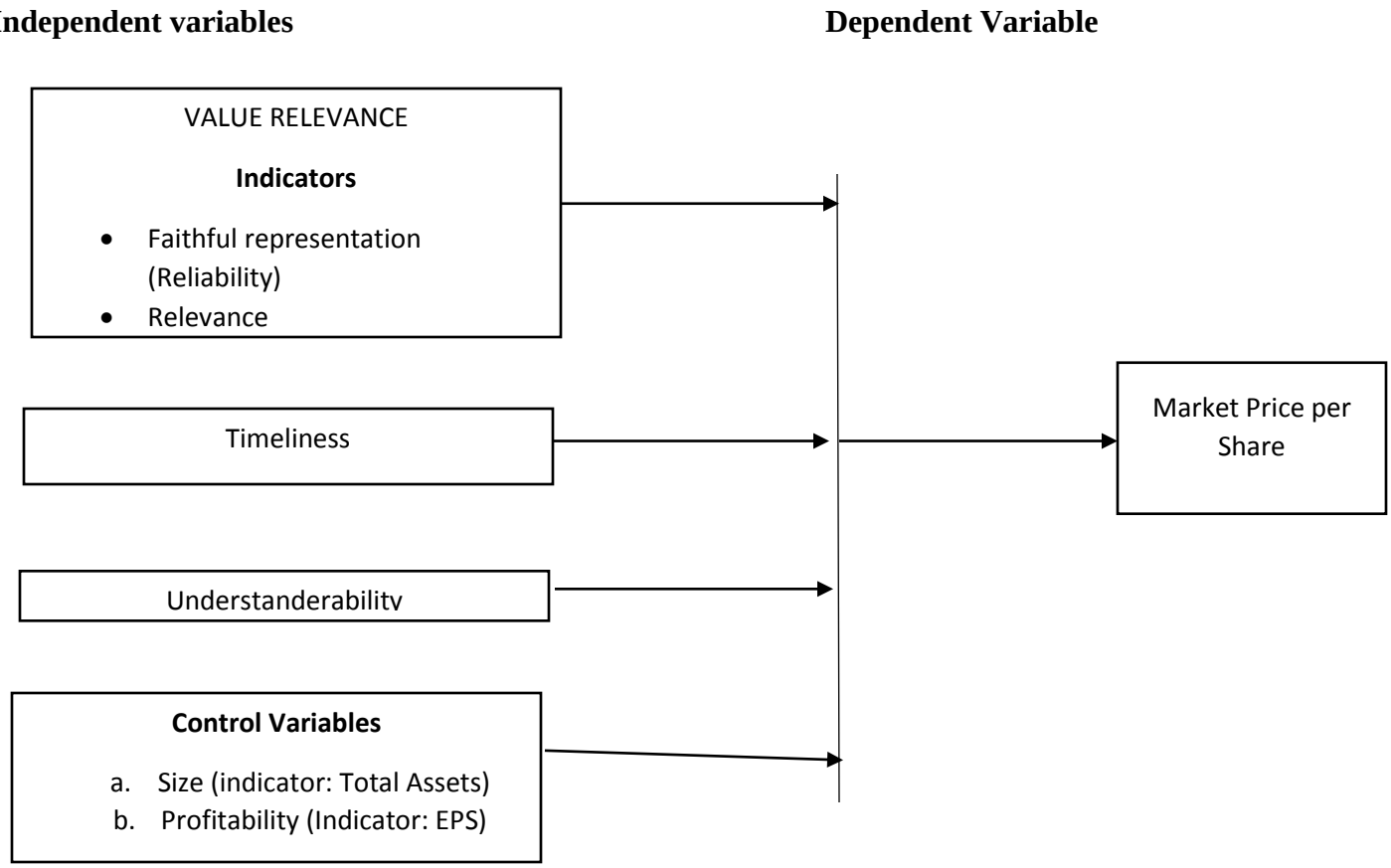


Figure 2: Conceptual Framework

Figure 2 above is a conceptual presentation of the relationship between financial reporting quality and firm's value. This is a diagrammatic representation of the relationship between aspects of financial reporting quality (qualitative characteristics of financial reports) and firms value (share price).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

"The research design refers to the overall strategy that you chose to integrate the different component of the study in a coherent and logical way, thereby, ensuring you effectively address the research problem". The research design is a blue print for data collection, data measurement and data analysis. ("Organizing Your Social Sciences Research Paper", 2018). According to Connelly (2008), the research design brings the various elements of the study together. This study used descriptive survey which considers both quantitative and qualitative data in achieving the study objectives. Descriptive study was used due to its ability to provide a detailed narrative of the elements in a study that would lead to a better understanding of the effects of financial reporting quality on the share price. Descriptive study delignates the situation as it is currently (Kothari, 2014).

3.2. Population

According to Mugenda (2013), a population is a group of objects with one or more characteristics and were selected in a study. It is a collection of people or items with all the characteristics that one wishes to study (Kothari, 2014). In this research,the target population for the research were the 65 entities listed in the Nairobi Securities Exchange. Entities listed in the Nairobi Securities Exchange are grouped into 12 categories. Table 1 below are the various categories with the number of entities within each category.The financial reports for these entities, for the year ended 2011 to 2017, were analyzed.

Table 1. Listed entities at the NSE

Category	Number of Entities
Agricultural	7
Automobile	1
Banking	11
Commercial and Services	12
Construction and allied	10
Insurance	6
Investment	5
Investment services	1
Manufacturing and allied	9
Telecommunication and technology	1
Real estate investment trust	1
Exchange traded fund	1
	65

(Source: NSE)

3.3. Sampling Technique

A sample is usually a subset and a true representation of the population (Mugenda, 2013). Mugenda (2013) further asserted thatsampling is desirable when the items examined are not small (more than 200). In these studies, the population were the 65 entities listed in the NSE. Considering that seven financial statements (from year end 2011 to 2017) were investigated for each entity, the total financial statement that wereto be analyzed amounted to336 (excluding those from financial institutions). Going by the arguments of Mugenda (2013), the financial

statements that were to be analysed were large enough to warrant for sampling. Further, inadequacy of resources did not allow for the examination of all these financial statements. Therefore, 60 entities were randomly selected from the 336 financial statements. In addition, since these entities were groups, the nature of random sampling was stratified sampling.

3.4. Data Collection

The study used secondary data of entities listed in the Nairobi Securities Exchange. Quantitative and Qualitative data relating to entity's financial reporting quality and share prices were collected for the sampled entities.

3.5. Content Analysis

Content analysis is a research method applied in making inferences by interpreting and coding textual material. By coding the textual materials, qualitative data can be converted into quantitative data allowing for further analysis. Content analysis provides a bridge between qualitative data and quantitative data (University of Georgia, 2018). Content analysis provides researchers with an opportunity to examine and review issues related to social trends, stakeholder perception and organizational behaviors.

This study used content analysis in evaluating the financial reporting quality of published financial statements. Nijmegen Centre of Economics developed an index quality measurement based on the IASB and FASB qualitative characteristics. This is what was used in coding the various aspects of financial reporting quality.

3.6. Data Analysis

The focus of this paper was to examine the impact of financial reporting quality on firm's value. This was achieved by regressing financial reporting quality against the Market Price per Share. The Stata software was used in the analysis.

On completion of content analysis, the Market Price per Share was regressed on financial reporting quality to determine if there were any relationship between the two. To remove heteroscedasticity and autocorrelation the estimates were adjusted for various standard errors.

The following model was used to identify the relationship between the independent variables and the dependent variables.

$Y = \alpha + \beta$*Financial reporting quality + μt

Where Y = Market Price per Share

μt = is the error term of the model

β= Coefficients

α = Regression Constant

Further, since financial reporting quality was measured in terms of comparability, faithful representation and reliability, relevance, understandability and timeliness. The above model was re-written as below: -

Firms value $= \alpha + \beta 1$* Comparability + $\beta 2$*Understandability + $\beta 3$*Timeliness+ $\beta 4$* Relevance+ $\beta 5$* Faithful representation/Reliability + μt

Where

μt = is the error term of the model

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ and $\beta 5$ = Coefficients

α = Regression Constant

In addition to regression analysis, correlation analysis was also used to establish the strength of relationship between Market Price per Share and the various aspects of financial reporting quality.

3.7. Diagnostic Test

The ordinary least square (OLS) model was be used in the study. However, before the data collected was used, it was examined to establish if they satisfied the OLS assumptions. Therefore, various diagnostic test was conducted on the data to ensure they met the assumptions of the OLS model. The diagnostic test carried out on the data were the linearity test, multicollinearity test, homoscedasticity and Normality test.

3.7.1. Linearity test

Linearity is a relationship existing between two variables, “X” and “Y”, in the form of the mathematical equation “Y=CX”. The importance of testing for linearity is that many statistical models, including the OLS model, requires the assumption of linearity (Gujarati, 2017). It therefore follows that linearity test needs to be carried out before using the OLS model.

This study applied the scatter diagram, computed by the Stata software, in testing for linearity. The dependent variables were plot against the independent variable and then the graphs were visually observed for linearity. Linearity existed if data points were arranged in oval shape, otherwise there were no linearity and the data had to be transformed.

3.7.2. Multicollinearity test

Multicollinearity refers to the existence of linear relationship between the predictor variable of a regression model. The relationship can be perfect or imperfect (Gujarati, 2017). It's a state of autocorrelation among the explanatory variables and its existence in a data may lead to unreliable inferences being made from a data. However, Gujarati (2017) noted that multicollinearity is not a big problem if the model is used for predictions as the predicted values would remain stable, but it is a problem if the model is used in causal modelling.

For this study, the variance inflation factor calculated by Stata statistical software was used to test for multicollinearity. The variance inflation factor (VIF) was of great importance as it not only detected the multicollinearity, but it also detected the strength of multicollinearity. Multicollinearity existed if the value of VIF was greater than 10.

3.7.3. Homoscedasticity test

Homoscedasticity describes the situation where the error term in the independent variables is the same across all values. Where homoscedasticity does not exist, the error term or "noise" would increase across the independent variables (Gujarati, 2017). To test for homoscedasticity the Breusch-Pagan test was used calculated by the Stata Statistical Software. A p value of less than 0.05 was an indication of absence of homoscedasticity and the presence of heteroscedasticity.

3.7.4. Normality test

This a test conducted to establish if the data is normally distributed. A normally distributed data is not skewed and has a coefficient of Kurtosis which is equal to three or less. The presence of normality is of great significance if the inference made from OLS model are to make sense. In

the study both graphical and numerical test calculated by Stata Statistical Software were used. The graphical test was the histogram of residuals. The Jarque-Bera test was the numerical test. These test is based on the following hypotheses

H_O: The data is normally distributed

H_1: The data is not normally distributed

Where the P-value was less than 0.05, the alternate hypotheses was to be rejected indicating the absence of normality in the data and the use of the data would have led to distorted inferences.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1. Introduction

This chapter presents a summary of quantitative data collected and analysed in the study. The chapter has the descriptive statistics and inferential statistics obtained from the study.

4.2. Descriptive Statistics

The study investigated how the various elements of financial reporting affects the share price. The market price of the entities selected were collected from the websites containing information on these entities. Table 4.2. below is a summary of data analysed in the study. It presents the mean, standard deviation, minimum and maximum for each variable used in the study.

Table 2:Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
MPS	47	52.06	93.79	0.81	503.33
EPS	47	3.48	8.01	-9.22	40.30
TOTAL_ASSETS (IN MILIONS)	47	49721.89	88954.21	262.01	367248.80
RELEVANCE	47	3.00	1.03	1.25	4.50
FAITHFUL PRESENTATION	47	4.00	0.64	2.60	4.80
UNDERSTANDABILITY	47	3.19	0.40	2.40	4.20
COMPARABILITY	47	2.59	0.28	2.00	3.17
TIMELINESS	47	1.47	0.50	1.00	2.00

The table shows that the data related to the Market Price per Share (MPS) had a mean of Kshs 52.06 and a Standard Deviation (Std. Dev.) of 93.79. Further, the highest MPS in the data was Kshs 503.33 and the lowest was Kshs 0.81. On the other hand, EPS had a mean of Kshs 3.48, a standard deviation of Kshs. 8.01, a minimum of Kshs -9.22 and a maximum of Kshs 40.30. In addition, data related to the total assets had a mean of Kshs 49,721.89 Million, a standard deviation was Kshs 88,954.21 Million, a minimum of Kshs 262,01 Million and a maximum of Kshs 367,248.80 Million.

The NiCE model was used to score the indicators and the average score for each indicator was used in the study, this is shown in table 2 above. The table shows that faithful representation had the highest mean of score, that is 4.00. Moreover, its minimum score and maximum score were high compared to the other indicators, this implies that the firm analysed scored well in faithful presentation of financial reports. However, understandability had the lowest mean, standard deviation, minimum and maximum score hence indicating the delay of firms in releasing financial reports.

At some point of the data analysis, the logarithm of certain variables had to be used in order to ensure the model meets the linearity assumption. Table 3 below show a summary of the data after including the logarithm element in the analysis. Variables whose logarithms were used are the MPS, EPS, Total Assets, Relevance, Faithful Presentation, Understandability and Comparability.

Table 3: Descriptive Statistics after Transformation

Variable	Obs	Mean	Std. Dev.	Min	Max
LOG MPS	47	2.83	1.52	-0.21	6.22
LOG EPS	34	1.04	1.33	-1.90	3.70
LOG TOTAL ASSETS	47	9.47	1.74	5.57	12.81
LOG RELEVANCE	47	1.04	0.37	0.22	1.50
LOG FAITHFUL PRESENTATION	47	1.37	0.17	0.96	1.57
LOG UNDERSTANDABILITY	47	1.15	0.12	0.88	1.44
LOG_COMPARABILITY	47	0.95	0.11	0.69	1.15
TIMELINESS	47	1.47	0.50	1.00	2.00

Even after transformation, the score for faithful representation were still high with a mean score of 1.37, a standard deviation of 0.17, a minimum log score of 0.96 and a maximum log score of 1.57. Understandability as an indicator of financial reporting quality still trailed.

4.3. Regression Results

A linear regression analysis was run using Stata and the post estimation test were carried out to determine the adequacy of the regression model. Further, correlation analysis was also conducted to determine the strength of relationship between the dependent variable and the independent variables. The correlation analysis was also used in checking the possibility of their being correlation between the predictor variables.

4.3.1. Correlation Analysis

Correlation analysis was used in determining the strength of relationship between the dependent variables and the independent variables. Table 4 and 5 below is the summary of the results.

Table 4: Correlation results (part b)

	LOG MPS	LOG EPS	LOG TOTAL ASSETS	LOG RELEVANCE
LOG MPS	1.00			
LOG EPS	0.80	1.00		
LOG TOTAL ASSETS	0.12	0.27	1.00	
LOG RELEVANCE	0.13	0.09	-0.01	1.00
LOG FAITHFUL PRESENTATION	-0.04	-0.12	-0.19	0.81
LOG UNDERSTANDABILITY	0.17	0.05	0.32	0.68
LOG COMPARABILITY	-0.16	-0.12	-0.20	0.76
TIMELINESS	0.19	0.13	-0.53	0.18

The table above is the first part of the correlation analysis. Correlation analysis was conducted on the transformed data. From the table it appears that all other variables except the log of faithful presentation and the log of comparability are positively correlated to the market price per share. Further, the log EPS is strongly correlated to the dependent variable. Further the table shows a high correlation between the log of faithful presentation and the log of relevance indicating a possibility of multicollinearity between the two. This is also the case in the log of relevance against the log of comparability, and understandability. Table 5 below is a representation of the other part of the analysis.

Table 5:Correlation Analysis (Part B)

	LOG FAITHFUL PRESENTATION	LOG UNDERSTANDABILITY	LOG_COMPARABILITY	TIMELINESS
LOG FAITHFUL PRESENTATION	1.00			
LOG UNDERSTANDABILITY	0.57	1.00		
LOG COMPARABILITY	0.83	0.55	1.00	
TIMELINESS	0.26	-0.04	0.35	1.00

An analysis of the table above shows that there is only one strong relationship, which is between the log of comparability and the log of faithful presentation. Other variables, although there are related, the strength of the relationship is mild.

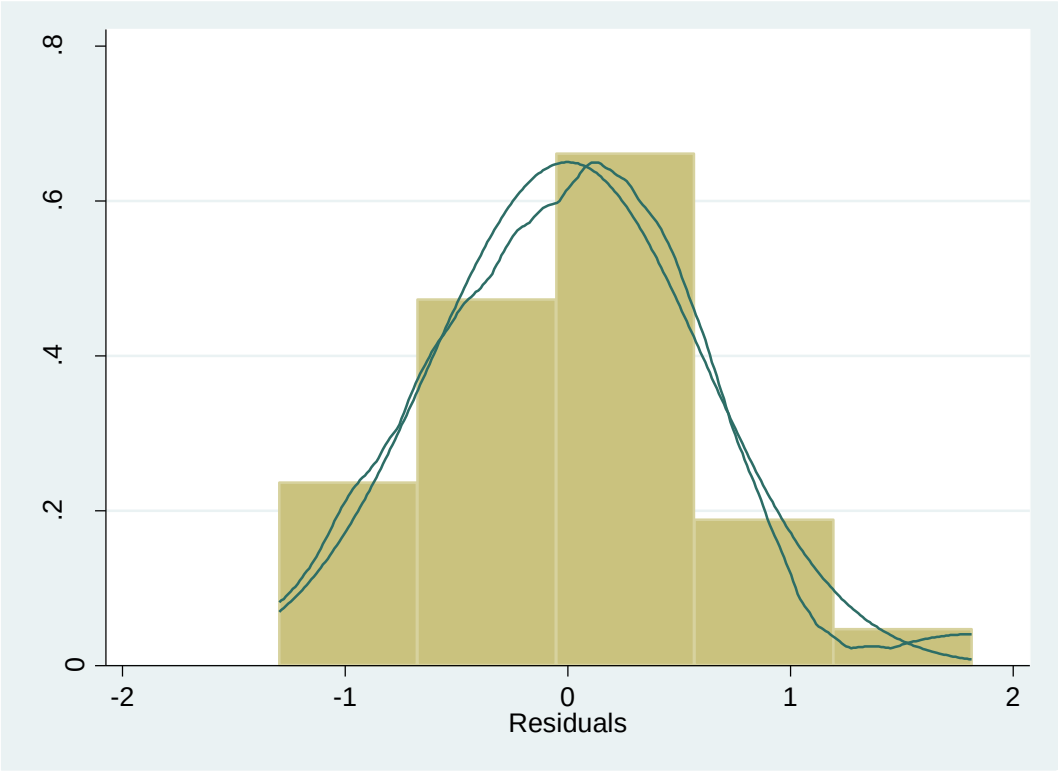
4.3.2. Linearity Test

A scatter diagram with Q fit was used in determining if the variables met the linearity test. MPS, EPS, Total Assets, Relevance, Faithful Presentation, Understandability and Comparability failed the linearity test. This warranted the data to be transformed using logarithm to make the data meet the linearity assumptions. The resultant is that the log of MPS, EPS, Total Assets, Faithful Presentation, Understandability and Comparability were the one used in the regression model.

4.3.4. Normality test

A histogram of the residuals was plotted to determine if the data met the linearity test. Thereafter, the Jarque-Bera test was done to ascertain the normality of the data. Figure 2 is the Histogram of the residuals.

Figure 2: Histogram of Residuals



A closer look at the histogram indicates that the model is normally distributed. On the other hand, the Jarque-Bera test result to a P value of 0.404. Since the value is greater than 0.05, we fail to reject the null hypotheses that the data is normally distribute. Failure to reject the null hypotheses led the decision that the data was normally distributed

4.3.5. Multicollinearity Test

The correlation table was the first point of testing for multicollinearity. The presence of strong relationship between the independent variables was a sign of a possibility of multicollinearity in the data. However, further analysis using the variance inflationary factor showed that there was no multicollinearity in the data. The table below is the results of the VIF test conducted.

Table 6: Variance Inflationary Factor

Variable	VIF	1/VIF
LOG FAITHFUL PRESENTATION	4.62	0.22
LOG RELEVANCE	4.45	0.22
LOG COMPARABILITY	4.03	0.25
LOG UNDERSTANDABILITY	2.51	0.40
LOG TOTAL ASSETS	2.09	0.48
TIMELINESS	1.79	0.56
LOG EPS	1.43	0.70
Mean	VIF	2.99

From the table, log of Faithful presentation has the highest VIF, while log of EPS has the lowest compared to other variables. However, none of the variables has a VIF that is equal to or more than 10 thus ruling out the possibility of there being multicollinearity among the independent variables.

4.3.6. Homoscedasticity test

The graphical method was used to test the presence of heteroscedasticity. Analysis of the graph revealed presence of homoscedasticity. This revelation was affirmed by the Breusch-Pagan / Cook-Weisberg test. These tests resulted to a P value of 0.2824, because the P value is greater than 0.05, we fail to reject the null hypotheses thus there is no heteroscedasticity.

4.3.7. Regression Analysis

Regression analysis was used in analyzing the effect of a change in unit of the independent variable on the dependent variable. In this study, linear regression was used to examine the effect of changes in the various indicators of financial reporting quality on the MPS of firms listed in the Nairobi Securities Exchange.

The regression model was as below:

Firms value $=\alpha + \beta 1^*$ Comparability $+ \beta 3^*$Understandability $+ \beta 4^*$Timeliness$+ \beta 5^*$ Relevance$+ \beta 6^*$ Faithful representation/Reliability $+ \mu t$

Where

μt = is the error term of the model

$\beta 1, \beta 2, \beta 3, \beta 4, \beta 5, \beta 6$= Coefficients

α = Regression Constant

The results of the regression analysis are presented in table 7 below.

Table 7: Regression Analysis

LOG MPS	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
LOG EPS	0.75	0.11	6.88	0.00	0.52	0.97
LOG TOTAL ASSETS	-0.15	0.10	-1.49	0.15	-0.35	0.06
LOG RELEVANCE	0.12	0.71	0.18	0.86	-1.33	1.58
LOG FAITHFUL PRESENTATION	1.64	1.56	1.05	0.30	-1.57	4.85
LOG UNDERSTANDABILITY	3.84	1.56	2.46	0.02	0.63	7.06
LOG COMPARABILITY	-6.95	2.34	-2.97	0.01	-11.76	-2.14
TIMELINESS	0.35	0.32	1.08	0.29	-0.31	1.00
CONSTANT	3.17	2.12	1.50	0.15	-1.18	7.52

Fitting the regression model with coefficients in the table would result to the following equation:

MPS = 3.17 + 0.75 * Log EPS - 0.15 Log Total Assets - 6.95 * Log Comparability + 3.84 * Log Understandability + 0.35*Timeliness+ 0.12 * Log Relevance+ 1.64 * Log Faithful representation/Reliability

The model implies that 1% change in EPS leads to the MPS increasing by 75% keeping all other variables constant. Further a 1% change in Total assets results to a decrease of the MPS by 15% keeping other variables constant. Also, a 1% change in understandability results to MPS increasing by 384%. Further, a unit change in timeliness results to MPS increasing by 35%.

According the model an increase of MPS would be caused by an increase in comparability of financial statement, understandability, relevance and faithful presentation in financial report.

Moreover, the data fall within the 95% confidence interval as the p value was 0.000. Additionally, the $R^2$for the data is 0.7697, implying that 76.97% change in dependent variables is accounted for by the independent variables.

4.4. Discussions

4.4.1. Effects of value relevance of financial reports on firm's value

Correlation analysis revealed that the relationship between log of MPS and Relevance was positive 0.13, and the relationship between log of MPS and faithful presentation had a correlation coefficient of negative 0.04. This indicates that there is a positive relationship between the log MPS and the log of relevance and that log MPS has a negative relationship with log of Faithful representation, though the relationship is a weak form as the correlation coefficient is near zero. However, when the correlation analysis is conducted using the untransformed data, a weak positive relation is seen between MPS and faithful representation, with a correlation coefficient of 0.005. While the relationship between MPS and Relevancy had a correlation 0.1547.

The relationship between value relevance, indicated by faithful representation/Reliability and relevance, and MPS is best seen in the fitted regression model. The model shows a positive relationship between faithful representation/ reliability, relevance and MPS. The model depicts that a 1% change in faithful presentation/ reliability results to MPS increasing by 164% keeping other variables constant. While a 1% change relevance results to 12% increase in MPS. This result is consistent with other results on value relevance, that indicates that value relevance is positively related to the market value. Although most value relevance studies focused on quantitative characteristics rather than qualitative, their results coincide with these study that value relevance has an impact on share prices.

Among the studies whose results coincides with the ones in this paper is the one by Hassan and Haque (2017), Camodeca et al(2014) and Glezakos (2012) that showed that value relevance has a positive impact on share price. However, the correlation results conflicts with the results by Vijitha and Nimalathasan (2014) that found a significant positive relationship between the indicators of value relevance and the share prices.

4.4.2. Effects of comparability of financial reports

The log comparability, as an indicator of financial reporting quality, had a coefficient of negative 0.16 depicting that any increase in the comparability of financial statement would reduce the share price of the entity. This result was confirmed in the regression model that showed that 1% increase in Compatibility would result to a decrease of MPS by 695%. Firstly, this clearly shows that the comparability of financial statements greatly influences the share prices hence confirming the findings of Starling (2017). Starling (2017) noted that financial statement is informative especially among the speculative stocks. This assertion was supported by Baik (n.d.) in his study that investigated among other things whether comparability reduce stock delays. In the study Baik (n.d.) noted that comparability of financial statement is a significant factor in price discovery. This is also in line with the study by Choi et al (2017) that indicated that comparability increases the informativeness of share prices hence enabling investors better predict the market.

In addition, the finding that comparability is negatively related the share price coincides with the findings of Baik et al (n.d.) in his study. In the study, Baik et al (n.d.) discovered that comparability is negatively correlated to stock price delay. Thus, according to Baik et al (n.d.), an increase in comparability of financial statements leads to share prices taking longer to reflect the available information.

4.4.3. Effect of understandability of financial reports on the share price

The findings of these study indicate that understandability of financial report have significant impact on the share price. The correlation analysis indicates showed a positive relationship between the understandability and MPS, this is depicted by a correlation of positive 0.17. This positive relationship is confirmed by the regression model that demonstrates that a 1% increase in understandability would result to 384% increase in share price. This confirms the assertion by Barth (2008) that understandability is an important aspect in financial reporting.

However, very little had been done in the past to determine the nature of relationship between understandability of financial reports and the share prices. It's is expected that the findings add to the existing literature explaining the nature of relationship between understandability and share price.

4.4.4. Effect of timeliness of financial reports on the share price

Timeliness has also come out as a significant indicator of financial report. Timeliness had a correlation coefficient of positive 0.19, indicating a strong positive relationship between timeliness of financial statements and the log of MPS compared to the other variables. This is affirmed by the regression model that shows a unit increase in timeliness results to share prices increasing by 35%. These is contrary to the findings by Fujianti (2016) who found out that timeliness of financial reports had no impact on share prices.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

The general objective of the study was to investigate the relationship existing between financial reporting quality and the market price per share of firms listed in the Nairobi Securities Exchange. The specific objectives of the study was to investigate how the elements of financial reporting quality affects the market prices of shares. Financial reporting quality was measured in terms of relevancy, faithful presentation, comparability, timeliness and understandability. This was achieved the use of the NiCE model that was developed by the Nijmegen Centre for Economics.

60 financial statements were sampled from the whole population. However, the sampled financial statements were reduced to 47 as 13 financial statements were dropped either due to incomplete financial statements or there were no data relating to their market price per shares. This mostly affected financial statements produced in 2011. For the 47, financial reports used in the study, content analysis was used in rating the financial reporting quality. Data gathered was presented in descriptive and inferential statistics. After the formulation of the regression model, several diagnostic tests were conducted to test the validity of the model. Where the data failed, data were transformed to make the model valid.

The results depicted that Relevancy, Faithful presentation, Timeliness and Understandability were positively related to MPS while comparability was negatively related to MPS. In the regression model used, EPS and Total Assets were used to control the effects of profitability and size respectively on the MPS.

5.2. Conclusion

From the regression model formulated in the study after analysis, all the independent variables had a positive coefficient except comparability of financial reports. However, understandability has the highest coefficient, a coefficient 3.84, thus significantly affecting the MPS. It therefore follows that understandability is a major determinant of MPS. Based on these, it can be argued that the effect of financial reporting quality starts with the investors understanding the message sent in the financial reports. All investment decisions made in the market that ultimately results to change in share prices depends on the investor understanding the financial reports.

In the model, understandability was followed by Faithful Presentation/ Reliability, implying that they also have a significant influence on the MPS.

Based on the above, it therefore follows that when entities are preparing financial reports for public use although the entity should aim at improving timeliness and relevancy of the financial statements, priority should be given to understandability and faithful presentation as they greatly affect the share price.

5.3. Recommendations

The findings in the previous chapters clearly indicates that financial reporting quality cannot be ignores as they have significant effects on the MPS. Considering that financial report is a great source of information and that most investors heavily depend on them in arriving at investment decisions; entities are advised that they should aim at producing financial reports that are of great quality. These entities should ensure that the financial reports faithfully present the performance of the entity, the financial reports should be understandable by the users, the information contained therein should relevant and most of all the financial reports should be availed to the users in time for them to have an impact

5.4. Recommendations for Further studies

The development of NiCE measurement model was a significant step towards evaluating effects qualitative characteristics of financial reports. However, these model needs to be improved further to make it an effective tool for measuring financial reporting quality. Firstly, the model is too subjective with no clear mark criteria for scoring financial reporting quality. Secondly, the model ignores the impact of compliance with International Financial Reporting Standards on financial reporting quality.Therefore, more studies need to be done that eventually lead to the improvement of the NiCE measurement model as a tool for measuring financial reporting quality by including the aforementioned.

Additionally, this study used the average of MPS for the first 30 days after the financial reports were authorized for issue. The researcher recommends that further studies need to be done to establish the impact of financial reporting quality on the daily prices of shares from the date they are authorized for issue.

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APPENDICES

Appendix I: NiCE Measurement Model

Table 8. NiCE Mesaurement Model

Relevance			
Question no.	**Question**	**Operationalization**	**Concept**
R1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the company?	1 = No forward-looking information 2 = Forward-looking information not an apart subsection 3 = Apart subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation	Predictive value
R2	To what extent does the presence of non-financial	1 = No non-financial information 2 = Little non-financial information, no useful for forming	Predictive value

	information in terms of business opportunities and risks complement the financial information?	expectations 3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps developing expectations	
R3	To what extent does the company use fair value instead of historical cost	1 = Only HC 2 = Most HC 3 = Balance FV/HC 4 = Most FV 5 = Only FV	Predictive value
R4	To what extent do the reported results provide feedback to users of the annual report as to how various	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback	Confirmatory value

	market events and significant transactions affected the company?		

Faithful representation			
Question no.	**Question**	**Operationalization**	**Concept**
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1 = Only described estimations 2 = General explanation 3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc. 5 = Comprehensive argumentation	Verifiability

F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	Verification
F3	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?	1 = Negative events only mentioned in footnotes 2 = Emphasize on positive events 3 = Emphasize on positive events, but negative events are mentioned; no negative events occurred 4 = Balance positive and negative events 5 = Impact of positive/negative events is also explained	Neutrality

F4	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control	Free from material error, verification, neutrality, and completeness
F5	To what extent does the company provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG	Completeness, verifiability, and free from material error

Understandability			
Question no.	**Question**	**Operationalization**	**Concept**
U1	To what extent is the annual report presented in a well-organized manner?	Judgment based on: - complete table of contents - headings - order of components - summary/ conclusion at the end of each subsection	Understandability
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc.) 5 = Everything that might be difficult to understand is explained	Understandability

U3	To what extent does the presence of graphs and tables clarifies the presented information?	1 = no graphs 2 = 1-2 graphs 3 = 3-5 graphs 4 = 6-10 graphs 5 = > 10 graphs	Understandability
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation	Understandability
U5	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page	Understandability

	4 = 1-2 pages	
	5 = > 2 pages	

Comparability

Question no.	Question	Operationalization	Concept
C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	Consistency
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ clear notes 4 = Clear notes + implications (past) 5 = Comprehensive notes	Consistency

	revision?		
C3	To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes	Consistency
C4	To what extent does the company provide a comparison of the results of current accounting period with previous	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications	Consistency

	accounting periods?		
C5	To what extent is the information in the annual report comparable to information provided by other organizations?	Judgment based on: - accounting policies - structure - explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations	Comparability
C6	To what extent does the company present financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1-2 ratios 3 = 3-5 ratios 4 = 6-10 ratios 5 = > 10 ratios	Comparability

Timeliness			
Question no.	**Question**	**Operationalization**	**Concept**
T1	How many days did it take for the auditor to sign the auditors' report after book year end?	Natural logarithm of amount of days 1 = 1-1.99 2 = 2-2.99 3 = 3-3.99 4 = 4-4.99 5 = 5-5.99	Timeliness