THE EFFECTS OF EARNINGS QUALITY ON MARKET VALUE OF LISTED STATE OWNED ENTERPRISES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for an award in any University

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This research project has been submitted for examination with our approval as the University supervisors.

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DEDICATION

I dedicate this research project to my dear wife for her great support and understanding and for constantly encouraging me to work extra hard, my audacious son Joshua and strict daughter Hawi for their continuous enthusiasm and encouragement throughout my studies.

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LIST OF ABBREVIATIONS

CBK :   Central Bank of Kenya

DPS :   Dividend per Share

EPS :   Earnings per Share

EQ: Earnings Quality

GDP :   Gross domestic product

IASB :   International Accounting Standards Board

IFRS :   International Financial Reporting Standards M/B : Market-to-Book

NSE :   Nairobi Securities Exchange

OLS :   Ordinary Least Squares

ROA :   Return on Assets

ROE :   Return on Equity

VIF :   Variance Inflation Factors

ABSTRACT

The aim of this research was to evaluate how earnings quality affects market value of state-owned businesses outlined on the Nairobi Securities Exchange. To establish the effects, a descriptive research design was applied in this investigation. Secondary data was used in this study. Secondary information to be gathered included Total accruals, cash flow from operations, inflation rate, annual total assets, number of outstanding shares, share prices for the period between 2009 to 2019. This information was retrieved from annual published report and NSE database. Gathered information was analyzed through descriptive and multiple linear regression. The outcome showed that the model fit was statistically significant to predict market value based on financial leverage, accrual quality, firm size and earnings persistence, 62.9% of the proportion of variance in market value could be explained by the model that was fitted with earnings persistence, accrual quality, financial leverage and firm size as independent variables. From the study findings, it concluded that accrual quality, earnings persistence, and firm size were positive and significant predictors of market value. Thus the study concluded that the firm management should engage in activities that ensure profit maximization of the firms to ensure that the accrual quality and earnings persistence to realize an increased market value of firm's consistency. The research also recommended that the firm's management also ensures that the financial performance of firms is steadily lucrative thus to ensure that the firms are in a position to continue accruing assets so that the firm size of the firms grows and hence a subsequent increase in market value. The study also recommended that government enact measures that regulate the amount of inflation in the economy. This was to ensure that the economy is able to operate favorably thus to ensure that businesses are able to grow.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In a competitive business environment, firms seek to have their assets to trade at a higher price than its peers do. Market value of a firm is the price an asset would fetch in a financial market (Aguguom & Rafiu, 2018). The price or market value of a firm is influenced by various factors, among them being earnings quality, reputation, and profitability (Damodaran, 2016). Firms with higher market value were associated with earnings quality value hence, reporting requirements should be strengthened, resulting in higher reporting quality. Anaekenwa and Rafiu (2018) also noted that the quality of earnings was found to have a favorable effect on market value. High-quality earnings are critical to a company's financial health, which has an impact on financial market efficiency. Investors, investment analysts, and regulators utilize financial report information to assess a company's financial health, which has an effect on the effective operation of financial markets. The company's results are one of most eagerly anticipated aspects of its success (Lakonishok $Chan, Jagadeesh 2006).

Several theories, notably Fama's (1970) Efficient Market Hypothesis (EMH), Spencer's (1973) signaling hypothesis, and the hypothesis of agency, influenced this research (Meckling $Jensen 1976). The efficiency with which markets handle information was central to EMH. Asset prices represent important information impacting a company's working in a fair and timely manner if markets are informationally efficient. As a consequence, asset valuations change at random as new information becomes available, and past and anticipated earnings data is incorporated in. The focus of signaling

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hypothesis is on the information asymmetries that occur tween managers and those outside company. Managers' actions are viewed by stakeholders as indicators of the quality of the company's operations, notably expected earnings and cash flows. Under agency theory, which covers how shareholders and managers interact in corporation, management is appointed as shareholders' agents. Managers should, in theory, promote the interests of shareholders by adopting actions that improve shareholder value (Cheng & Warfield, 2016). As part of their stewardship obligations, managers can strive to participate in activities that create high EQ, resulting in the maximizing of richness for shareholders as indicated by the company's market value.

The Nairobi Securities Exchange is Kenya's only regulated securities market (NSE). Since its beginnings in the 1920s, when trading was done by gentleman's agreement, the exchange has evolved into an open outcry system in the 1990s, and is now entirely computerized, with the option to trade through remote terminals. The NSE has a cumuative of 63 companies whose stock is listed and also traded, (Ngugi, 2018). The features of a company's economic activities determine sectors (NSE, 2019). Companies listed on the market must submit published interim and full-year financial statements, as well as early opening of any relevant information that can impact investors' decisions, to allow successful trading and decision-making by exchange participants. In particular, financial reports give way investors to assess a company's earning potential, (Ngunjiri, 2017). The profit stream of the investee business is acquired by shareholders, but they are concentrated on company's capacity to produce the promised earnings. As a result, market participants can assess the quality of a reporting company's earnings while making investment ideas.

1.1.1 Earnings Quality

Earnings quality (EQ) refers to a degree to which profits presented accurately reflect an entity's earnings, as well as its usefulness in forecasting future way of earnings (Bellovary, 2016). If the gains are of good quality, they show the entity's true economic reality; if they are of poor quality, investors are misled about the company's past and future performance (Mano, 2018). As a result, utilizers of financial statements ought to examine the information provided to determine its veracity and relevance, (Choi, 2018). Earnings quality, according to Teets (2020), is defined by how effectively accounting earnings represent results that are important to business valuation. Good earnings accurately represent current performance, predict future success, and give a strong foundation for assessing a company's worth.

Dechow et al. (2016) proposed three EQ case criteria: the quality of profits, how investors react to those gains, and extent to which the earnings may be manipulated. Earnings characteristics are the qualities that make earnings important to investors when making decisions. Earnings management, earnings smoothing, and results predictability all contribute to the utility of reported earnings (Liceran & Cano, 2017). Investors look at the connection tween accounting earnings and stock market returns. In essence, the new data represents the accuracy of the earnings forecasts embedded into asset prices based on current results. The responsiveness of investors to profits is concerned with how reported results affect stock investors' actions. For an equity investor, higher-quality earnings are more important when making a decision. Earnings misrepresentation implies earnings adjustment or restatement in later quarters and signals EQ concerns (Dechow, et al. 2010).

In studies, EQ measures are categorized into time-series measures, and accruals measures. Time-series measures include persistence and predictability, smoothness measures (smoothness standard deviation ratio and correlation), accruals measures (accruals quality and Abnormal accruals) (Perotti & Wagenhofer, 2014). Earnings persistence is a measure of a company's ability to maintain its stated earnings over time. Persistent earnings are long-term and thus of higher quality, whereas transient earnings are short-term and of lesser quality (Francis, Lafond, Olsson and Schipper, 2014). Persistence is measured using first order time series regression of earnings. The earnings persistence is shown by the gradient of the regression, with a gradient coefficient near to zero showing lesser gains persistence (Lyimo, 2014).

On the other hand, accrual quality reflects discrepancy between reported operating cash flows and net earnings. A huge discrepancy suggests that the profits are of poor quality (Anaekenwa & Rafiu, 2018). Dividing operational cash by operating profit, Mano (2018) calculated accrual quality. As a result of the difficulties in playing with cash flows, a ratio closer to one suggests stronger earnings quality.

If the reported earnings strongly predict future earnings, they will be of high quality; If they poorly estimate future earnings, they will be of lower quality (Pennyman & Zhang, 2002). Aguguom and Rafiu (2018) used the standard error of residues in the time series regression of profits to determine the estimate.A greater standard error means a lower profit quality, whereas a lower standard error means a better profit quality. Abdelghany (2016) used a ratio of operational assets to total sales to assess profit quality. A high ratio indicates low earnings quality, whereas a low ratio indicates great earnings quality. The quality of earnings will be determined in this study through earnings persistence and accrual quality.

1.1.2 Market Value

Market value represents the price of a firm in a financial market (Mocciaro, Picone, & Minà, 2018). It is also defined as fair values of cash and its equivalents, available for sale financial asset (Bajic & Yurtoglu, 2018). Tobin's Q is a formula that divides the book worthy of net assets by the market worth of shares (Aguguom & Rafiu, 2018). The market-to-book (M/B) ratio is another commonly used valuation measure. The M/B ratio is a comprehensive value indicator that considers a company's efficiency, growth, and risk. It reveals how much the market values the company's net assets. It also indicates How well the Company's management are managing assets in order to grow the business (Ceccagnoli, 2019). According to Marvadi, Tobin's Q and M/B ratios are related assessments of value created (2015).

In this study, market value was calculated by multiplying the price per share by the number of ordinary shares outstanding (Hitchner, 2017). When a company's future cash flow stream is discounted, it is effectively buying the company's future cash profits, which will be paid as dividends or realized as capital gains when the shares are sold (Damodaran, 2006). Pinto, Henry, Robinson and Stowe (2013) present a number of methods for assessing a company's value. The dividend valuation model lowers projected dividends, the net income model discounts free cash flow to the business or equity, and the residual valuation model assesses a company's value by adjusting opening book value for changes in equity over time.

When these strategies are applied on a regular basis, the company's value remains constant. Because the market price per share varies on a regular basis, a company's market value fluctuates as well, and may be rather volatile at times. Tobin's Q ratio is

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another valuation indicator. This ratio approximates the firm's worth based on the cost of replacing assets.

1.1.3 Earnings Quality and Market Value

Investors purchase a company's earnings stream. Current incomes are a projection of what earnings will be in the future, and investors use current earnings to evaluate a forward-looking investment (Damodaran, 2006). It is critical that an entity's predicted earnings are realized over time. Only if current earnings are of sufficient quality and represent the firm's operating fundamentals may they be utilised to forecast future earnings (Zhang, Lan & Pang, 2013). Organizations with far less revenues softening have a higher EQ, which boosts the company's worth (Li, Wang & Xu, 2013).

Securities markets allocate higher valuation to enterprises having a high EQ, according to Gaio and Clara (2017), which is connected to improved market valuation. Firms that report increased EQ, have more investment opportunities, and frequently raise cash from external markets are valued even more (Annes, 2016). Choi (2018) claims that when other aspects are held constant, companies with better EQ are valued higher. In the securities market, businesses with a high EQ are assessed more positively. As a result, reliable accounting data is crucial in determining a company's market worth.

1.1.4 State Owned Enterprises listed at the Nairobi Securities Exchange

Kenya's only formal regulated securities market is the Nairobi Securities Exchange (NSE). Its origins may be traced back to the 1920s, when the exchange facilitated share trading on an agreement basis rather than on a trading floor. In 1953, the exchange was formally registered. It has gone through various modifications since then, from trading over a cup of tea to the open outcry system to the current computerized

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trading system, which began operations in 2003. Until 2014, the NSE was a Private Corporation with a membership of registered stock brokers. Through an initial public offering in 2014, it became a public corporation and was listed on the same exchange (NSE, 2020).

The NSE presently has sixty-three firms listed in the agricultural, banking, investing, energy and petroleum, construction, insurance, manufacturing, investment services, telecommunications and automobiles, exchange traded funds, and real estate investment trusts sectors (NSE, 2020). Financial statements are published by NSE listed companies in accordance with the exchange's policies and appropriate accounting standards (Too, 2015). The NSE has several goals, one of which is to protect investors. To achieve this goal, the exchange mandates listed firms to provide timely and transparent information to investors on all material facts that could affect the company's performance (Kakiya & Mugo, 2013).

The study narrowed down to state corporations due to the problems they have been facing. These problems are likely to affect the market value and earnings quality of a firm (Milhaupt & Pargendler, 2017). These challenges faced by state owned corporations comprise of mismanagement of resources, impunity, politicization of the appointment process, irregular appointment of Board of Directors (BOD) (Ireri, 2013).

1.2 Research Problem

Despite the fact that high earnings quality attracts investors more than low earnings quality, most state-owned enterprises have consistently lost money, with reasons including a lack of sound financial management, poor reporting and tracking systems, a lack of internal control systems, and audit teams. However, the outcomes of research in this field are mixed. Earnings quality and market value

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of firm's listed in Indonesia were highly positively associated, according to Yanthani, Aljaso, and Dezie (2019). Gaio and Clara (2017) found a favorable relationship between business value and aggregate EQ measures using data from 38 nations. In a study conducted in Vietnam by Hung, Thi, and Dung (2020), EQ was found to have a favorable impact on firm valuation. For corporations listed in the United States, Larson and Robert (2014) found that forward-looking measures of EQ were highly negatively linked with firm value. Earnings quality and business valuation exhibited a negative association for organisations listed on Lisbon stock exchange, according to Annes and Domingos (2016).

The financial performance of SOE equities traded on the NSE, like that of other securities exchanges, varies. These swings, according to Muiva and Ogilo (2016), are caused by the random arrival of information about firm fundamentals. The exchange rate, inflation rate, and GDP were all positively related to the market capitalization of enterprises traded on the NSE (Ndunda et al, 2020). Factors include fluctuating currency rates, changes in money supply, and inflation, according to Ouma and Muriu (2014), affect the market value of companies listed on the NSE. Oyuga (2014) investigated the influence of earnings releases on NSE share prices using event research methodologies. According to the study, earnings announcements that were higher than expected resulted in a positive stock price adjustment, whereas earnings announcements that were lower than expected resulted in a negative stock price adjustment.

A review of global and local studies presents us with the following evidence. Global studies include; Gaio and Clara (2017) looked at income quality and company value

using a large sample of 7000 enterprises from 38 countries. It revealed a significant positive relationship between EQ and corporate valuation. Choi (2018) looked at the Korean Stock Exchange's earnings quality and business value. The outcome of the analysis showed that market valuation was found to be inversely associated to gearing, revenue growth, and book to market worthy. At the Lisbon stock exchange, Annes and Domingos (2019) looked at the relationship between EQ and firm performance. Findings showed that the continuation of earnings has a positive effect on the stock market's valuation. Yanthani et al. (2019) investigated EQ and the Indonesian stock market. The result was that applying accounting standards and changing capital market rules will not improve financial reporting quality by design. Anaekenwa and Rafiu (2019) looked at how the quality of earnings affects the value of Nigerian firms. The quality of earnings was found to have a favorable impact on book value.

Local studies conducted showed that Chepkwony (2018) looked at how earnings management affected NSE quoted company stock returns. Earnings management was found to have a small but considerable favorable influence on stock returns. Gworo (2019) focused on the relationship between earnings volatility and NSE company valuation. Earnings volatility was found to have a favorable effect on the market worthy of publicly traded companies. Kakiya, Mugo, Onyuma, and Owuor (2020) sought to determine how earnings releases influenced stock market efficiency. From the studies reviewed, a conceptual and contextual gap is evident as none of the studies researched on the effect of earnings quality on market value. Therefore, this study sought to fill this space by answering the indicated research question: what was the impact of earnings quality on the market value among listed state owned corporations in Kenya?

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1.3 Research Objective

The aim of this research was to evaluate how earnings quality affects the market value of state-owned businesses listed on Nairobi Securities Exchange.

1.4 Value of the Study

Corporate leader's would find the conclusions of this study valuable in assessing the influence of EQ on their firms' valuation. As a result, managers were directed to use profit reporting's authority for the public good. As a consequence of the research, investors would be able to evaluate the relevance of reported earnings when making investment decisions. Investors would be able to determine if the quality of provided results can be utilized to anticipate future earnings and, as a result, direct resource allocation.

The research would be beneficial to regulators such as the Capital Markets Authority, who are responsible for ensuring that corporations declare earnings that represent their economic realities. This would be critical in guaranteeing the smooth operation of capital markets and safeguarding investors from deceptive financial reporting.

The study would add to body of undernding in two ways. First, it would assess the value relevance of several earnings quality constructs utilized in the literature in terms of decision-making. Second, the research adds to the body of knowledge on the factors that influence a company's market value. The study's findings would serve as a reference point for future academics interested in similar topics. The report would also include recommendations for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The existing literature was evaluated in this chapter. The theoretical framework that underpins this research was discussed, followed by a review of market value factors. The chapter also discussed the study's empirical evidence, discussed the conceptual framework, and concluded by summarizing the literature.

2.2 Theoretical Framework

The study employed the Efficient Market Hypothesis (EMH) of Fama (1970), Agency Theory (Jensen & Meckling, 1976) and Signaling Theory as theoretical frameworks (Spencer, 1973).

2.2.1 Efficient Market Hypothesis

EMH's capacity to acquire all key information that might impact the company's performance to share market is a concern. The velocity and precision with which markets assimilate new information into security prices is an issue for EMH. Information is defined as everything that has the potential to effect a company's success and is unknown or unpredictable. Because information reaches the market at random, share prices follow a stochastic process as well. If asset prices react exactly and rapidly when new information becomes available, the market is efficient. As a result, selecting shares that regularly outperform the market is difficult for any investor (Fama,

1970). According to Campanella, Mario and D'Angelo (2016), market efficiency does not imply that stock prices are right, but rather that they are impartial.

Fama (1970) divides information processing efficiency into three categories: light, moderately, and excellent. It demonstrates inefficiency if share prices reflect all past information of a company's performance. All relevant public information, both past and predictable, is incorporated into the semi-strong from asset prices. In its strongest form, efficiency implies that the market incorporates everything publicly available as well as private information into the security price. A strong form contains a semi-strong form, and a semi-strong form includes a weak efficiency, according to Damodaran (2006). A semi-strong efficient market has historical earnings data as well as forecasted future earnings based on those results. Earnings surprises are likely to cause stock prices to respond, indicating a judgment of prior earnings quality or the inability of historical profits to anticipate prospective earnings. While the purpose of this study was not to evaluate the market's capacity to analyze earnings quality, EQ has consequences for market efficiency by ensuring that poor reporting does not mislead the market.

2.2.2 Agency Theory

An Agency relationship is created when a principal delegated decision-making and activity execution to an agent. The principle expects the agent to act in his or her best interests. Shareholders are the company's owners, and they appoint managers to act as their agents and commit their assets to them. Shareholders want management to act in their best interests and help them grow their assets. When the management' actions diverge from those of the shareholders, there is a conflict between the two groups. The conflict between shareholders and management occurs as a result of incentive alignment and knowledge

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asymmetry. Incentive systems that punish the agent for performing actions that attempt to promote the principal's welfare aggravate the principal-agent conflict (Jensen & Meckling, 1976).

Managers have an incentive to exaggerate financial performance, according to agency theory, since they have a say in accounting and reporting choices, especially when their pay is based on reported earnings or assets under management. By doing so, managers improve their personal usefulness rather than the usefulness of their organizations (Marquardt & Wiedman, 2014). Principals can decrease the excess of agents and lessen the mismatch of interests by spending agency fees that supervise the agent's behavior. However, such monitoring isn't ideal, and opportunism will always exist (Hunton, Libby & Mazza, 2016). If a manager's compensation is linked to financial success, there's a strong risk that results will be manipulated to raise executive pay (Cheng & Warfield, 2016). As part of their stewardship responsibility, managers may aim to participate in activities that create high earnings quality, resulting in the maximization of wealth for shareholders as indicated by the company's market value.

2.2.3 Signaling Theory

Spencer's seminal work from (1973) is the cornerstone of signaling theory. Spencer utilized the labor market to demonstrate how job candidates engage in behavior that reduces information asymmetry, which makes it difficult for an employer to choose the best candidate. Prospective employers are unaware of the qualifications of persons looking for work. By getting education that communicates their quality, job seekers lessen information asymmetry in the labor market. Because low-quality candidates are unable

to withstand the rigors of schooling, the signal is regarded successful. According to Stiglitz (2016), the presence of information asymmetry creates a necessary scenario for signaling efficiency. According to Spence (2017), quality refers to the signaler's ability to meet the demands of the entity understanding the signal, whereas intent refers to the signaler's goal.

When two people do not have equal access to the same amount and quality of knowledge on a subject, signaling theory gives a framework for interpreting their behavior. The one who has information choose how and when to reveal it, while the person who receives it decides how to interpret it (Malsch, 2013). Manager's have access to information that is not available to the general public. This privilege allows executives to provide information that they think beneficial in order to reduce knowledge asymmetry between shareholders and the company.

Markets rely on CEO earnings reports to forecast a company's future success. As a result, CEOs may use earnings announcements to provide information about their company's quality (Rath & Sun, 2008). The stock market filters the information released and adjusts stock prices upward if the information is of high quality, and downward if the information is of low quality (Pham, Chung, Roca & Bao, 2017). According to the signaling argument, investors are required to understand corporate managers' actions in order to assess the company's predicted success. If such movement indicates strong predicted earnings, demand for the company's stock rises, leading to a higher stock value.

2.3 Determinants of Market Value

Multiple elements interact to determine the market value of a company. Several of these elements are explored further down.

2.3.1 Earnings Quality

Different notions such as accrual quality, persistence, smoothness, and predictability of profits are utilized to measure earnings quality in the extant research. High-quality profits, according to Gaio and Clara (2017), are rewarded with a higher market valuation. Consistent earnings are connected to less valuation mistakes, according to Rene and Andson (2016), suggesting that valuation accuracy has increased. Schipper and Vincent utilize earnings persistence as a criterion to assess the quality of earnings by evaluating how long they are likely to last (2003). Oei, Ramsey, and Mather (2008) utilized the slope coefficient in a regression of wages time series to measure earnings persistence.

2.3.2 Firm Revenue

Revenue growth has an impact on a company's predicted future earnings, according to Pandey (2015). Increased sales may be a worthy goal, but it may not always result in a better market valuation unless the company's profit margin exceeds its required rate of return (William & Michael, 2015). If a company's revenue grows faster than its operational costs, its market capitalization may rise (Chung, 2019). According to Bogue and Buffa (2014), value of the company is impacted by revenue growth as well as the length of time that such growth is sustainable in excess of capital costs.

As long as the entities are a going concern, Damodaran (2016) suggested using sales for value, particularly for enterprises with negative earnings. Initial revenue and earnings releases are linked to stock price changes, according to Uday and Ro (2018). While profits and sales are related financial performance metrics, revenue is only moderately useful when earnings are not. Chanrda et al (2004) addressed the pervasiveness of revenue in valuation of businesses functioning in unpredictable and fast-changing settings since such organizations are likely to have fluctuating profitability. Income is more essential for younger businesses in developing industries, according to Jegadeesh and Livnat (2016).

2.3.3 Firm Size

According to Aloke, Gu and Jain (2016), the stock market capitalization of a publicly traded company indicates its size. For investors, market capitalization is a critical indicator for determining how well their assets are functioning. Market capitalization is a widely used metric for estimating the value of any company (Ikikii & Nzomi, 2013). The total assets listed on a company's balance sheet also indicate its size. This provides a book-based estimate of the firm's size (Liow, 2010).

There is a wealth of information available on how a company's size affects its value. Chung (2019) illustrates the existence of a size premium, which results in tiny business stocks gaining a significant return over time. Using the economies of scale argument, Davis (2012) shows that large firms with diverse product lines obtain a greater return at a lower risk. Large firms have reduced stock price volatility, according to Atiase (2015), resulting in more stable market value. Large companies are more lucrative and have a greater asset base, which should result in a higher market value

for the company when effectively deployed According to Yanthani et al., (2019) market value in larger businesses is more than in smaller businesses.

2.3.4 Financial Leverage

Equity value is related to debt equity ratio, according to Hamada (2015). Financial risk increases as a result of leverage, necessitating compensation from stockholders. As a result, given the risk they take on, companies with considerable leverage must produce a greater rate of return than stock investors would expect. As debt levels grow, stock prices must change quicker to maintain market equilibrium valuation. This proves that changes in leverage have a direct effect on stock price volatility.

The limits connected with the use of debt owing to the cost agency are highlighted by Amato and Burson (2007). These limits make it difficult to make some business decisions, such as selling underperforming assets. This could have a negative impact on the company's financial success. According to Elleuch and Trabelsi (2019), a firm's ROA and ROE are determined by calculating the difference between debt and equity in its income statement condition. According to Lee (2012), there would be no potential for arbitrage in a perfect capital market, and leverage would have no influence on an organization's net worth.

2.3.5 Gross Domestic Product

This is a metric for measuring a country's economic output. It is the monetary worth of the output of an economy. It is a broad indicator of a country's total output (Romer, 2009). Changes in GDP were a key cause of variance in business market value at the Istanbul exchange, according to Demir (2019). GDP volatility has been recognized as a

source of unpredictable high revenues in an economy, causing stock values to fluctuate. According to Kulhanek (2012), there is a strong relationship between economic productivity and stock prices in a particular economy. Stock prices and GDP growth were shown to have a positive long-term connection, and data from Central and Eastern Europe was used to co-integrate them.

According to Nazir and Nawaz (2010), GDP growth in Zambia influenced stock market development significantly. When GDP growth was higher than predicted, share prices climbed considerably. The relationship between the stock market index and macroeconomic factors was examined by Kaimba (2015). GDP growth, according to the study, has a substantial influence on stock market performance. In reaction to GDP growth, the NSE-20 stock index has appreciated. According to Mutulus and Olweny (2018), GDP has a long-term positive relationship with the stock market index.

2.3.6 Interest Rate

Interest rates, according to several research, have an influence on a company's market value. Udin (2009) showed that both the level and variations of interest rates had a negative influence on stock prices in both developed and developing nations in a study of how interest rates affected stock prices in both developed and developing countries. Chronically high interest rates, according to Demir (2019), are harmful to economies and lead to decreased equity prices.

Gathogo (2017) discovered that the interest rate on the 90-day Treasury bill, commercial bank interest rates, and the Central Bank of Kenya (CBK) base rate all had a negative impact on market capitalization of listed businesses at the NSE in a study

of macroeconomic factors influencing market capitalization of listed businesses at the NSE. Ndegwa (2016) looked into the macroeconomic factors that influence stock prices. The link between the CBK lending rate and stock prices was minimal. Trokon (2014) discovered no link between interest rate levels and stock prices.

2.3.7 Exchange Rate

This is the price at which a unit of currency is purchased or sold. The exchange rate is typically determined by the amount that a native currency is exchanged against other major currencies such as the US dollar, the British pound, or the Euro (Nshom, 2007). There appears to be a link between stock market valuation and exchange rates, according to evidence. In a study of the macroeconomic determinants of value in Malaysia, Ibrahim (2003) found that equity value was adversely associated to exchange rates.

Gathogo (2017) explain that currency rate fluctuations were a crucial determinant of company value in Kenya. The depreciation of the Kenyan shilling against the US dollar has a negative impact on stock prices. However, Ndunda et al (2020) discovered that exchange rate changes had a positive impact on the performance of the NSE equities market.

2.4 Empirical Evidence

Gaio and Clara (2017) looked at the relationship between income quality and company value using a large sample of 7000 enterprises from 38 countries. The goal of the research was to see how earnings quality and company valuation related. Panel data regression was used to evaluate the data. It was shown that there is a significant

positive relationship between EQ and corporate valuation. The findings show that businesses operating in a less favorable legal environment compensate by implementing more strict profit quality standards. It was also shown that strong EQ has a higher value in stock markets. It argued that reporting requirements should be strengthened, resulting in higher reporting quality.

Choi (2018) looked at the Korean Stock Exchange's earnings quality and business value. The goal of the study was to see how earnings quality metrics connected with company market value. The study looked at manufacturing companies on the Korean stock exchange. It was based on secondary data from 2003 to 2016. The data was analyzed using regression methods. Tobin's Q ratio was regressed on EQ metrics proxied by earnings, accruals persistence and predictability. Improved accrual quality, regular and predictable profits, and other characteristics that were constant throughout the research were all linked to higher market valuation. According to the poll, in order to boost their market value, Korean firms should improve the transparency of their financial reporting. Hung, Thi and Dung (2020) investigated how EQ influenced the stock market value of Vietnamese firms. The study's objective was to examine how EQ influences value.

The study took into account the impact of business size, investment rate, financial leverage, dividend payout, and revenue growth. The study used an exploratory research design. The impacts were measured using the generalized least squares method. The study found that EQ has a considerable beneficial impact on business value. The size of the company and the dividend were both found to be positively related to valuation. However, market valuation was found to be inversely associated to gearing, revenue

growth, and book to market value. It advocated for the adoption of systems to ensure that corporations prepare financial statements that reflect the firm's true financial status.

At the Lisbon stock exchange, Annes and Domingos (2016) looked at the relationship between EQ and firm performance. Its objective was to examine how EQ linked with firm market valuation. In this study, a casual research design was employed. The researchers looked at 46 businesses that were listed on the Lisbon stock market between 1987 and 2016. EQ factors including accruals quality, earnings predictability and earnings evenness were shown to have a detrimental influence on the firm's value. The continuation of earnings has a positive effect on the stock market's valuation. According to the research, the detrimental consequences might be the result of businesses falsifying earnings.

Yanthani et al. (2019) investigated the relationship between EQ and the Indonesian stock market. An exploratory design was employed, as well as a census of enterprises that traded between 1995 and 2015. While controlling for dividend payment, multiple linear regressions were used to examine the effect of EQ on market value. The correlation between EQ and equity value was discovered to be negative. The result was that applying accounting standards and changing capital market rules will not improve financial reporting quality by design.

Anaekenwa and Rafiu (2018) looked at how the quality of earnings affects the value of Nigerian firms. The goal of this study was to see how EQ affects the book value of Nigerian enterprises. A total of 51 publicly traded companies were selected for the investigation. The data was gathered from secondary sources. The data was analyzed

using pooled ordinary regression analysis. The quality of earnings was found to have a favorable impact on book value. The quality of accruals and the durability of earnings have been shown to have a favorable impact on book value. It was also discovered that earnings predictability had a detrimental impact on book value. Analysts should assess the earnings reliability and accrual accounting, according to the report.

In Nigeria, Aguguom, Dada, and Nwaobia (2019) investigated the relationship between earnings persistence and corporate performance. The goal of the study was to provide data on the value relevance of profits persistence from emerging markets. The method used was exploratory factor research. Between 2008 and 2018, the study examined 55 businesses from the Nigeria Stock Exchange. Earnings persistence was measured using time series modeling. According to the study, earnings persistence had a non-significant negative influence on market value. The permanence of earnings was shown to be an inconsistent predictor of EQ. It recommended analysts to use caution when assessing earnings, especially when they are variable, because this might have negative and misleading consequences for valuation.

Aguguom and Rafiu (2018) investigated the relationship between emotional intelligence (EQ) and financial success in Nigerian firms. The goal of this research was to investigate how earnings quality linked with market value. The research looked at 68 Nigerian firms that were publicly listed. The study relied on secondary data. Based on pooled panel data analysis, the researchers used multiple linear regression. Market value was found to be harmed by poor accrual quality and earnings predictability. Consistency in earnings defined value in a positive and meaningful way. Investors, analysts, and policymakers should evaluate the regularity of earnings time series trends, according to the

study. Ngunjiri (2017) looked into the link between profits management and the success of Kenyan public firms. The purpose of this research was to investigate if there was a relationship between earnings management and firm value. The study was conducted using a descriptive research approach. A census was carried out. OLS was used to evaluate the data. The objective of earnings management was to have a positive connection with ROA. The market to book value ratio and firm size were also found to have a beneficial effect on performance. Earnings management was found to have a favorable impact on performance. It was suggested that large companies and companies with a larger market to book value have superior financial success.

Chepkwony (2018) looked at how earnings management affected NSE quoted company stock returns. Its goal was to see how earnings management influenced stock performance. The study employed a descriptive research design. From 2013 to 2017, a census of financial companies traded was conducted. A number of linear regression was utilized to evaluate the data.

Discretionary accruals, market-to-book ratio, and business size were all used to regress stock returns. Earnings management was found to have a small but considerable favorable influence on stock returns. Stock returns were harmed by the M/B ratio and size. Earnings management did not have a major impact on stock returns, according to the study. It was suggested that earnings management does not considerably boost a company's stock returns.

The research of Gworo (2019) focused on the relationship between earnings volatility and NSE company valuation. The goal was to see how earnings volatility affects value. With a sample of 30 companies listed between 2011 and 2015, a correlational design was used. Secondary data was employed in this study. Earnings volatility was found to have a favorable effect on market value of publicly traded companies. The payment of dividends had a positive impact on the value of firms. Firms with more unpredictable earnings have a greater market value, according to the data. Managers of publicly traded firms were advised to limit earnings volatility and dividend distribution in order to send favorable signals to shareholders.

The effectiveness of the NSE's earnings release procedure was studied by Kakiya, Mugo, Onyuma, and Owuor (2013). The study's objective was to determine how earnings releases influenced stock market efficiency. The method of event research was used. The research was carried out between 2016 and 2011. Earnings announcements had a significant influence on the cumulative average risk adjusted return, showing market inefficiency. According to the findings, when it comes to earnings releases, the NSE was just semi-efficient. According to the study, the Capital Markets Authority should enact legislation that eliminates inefficiencies in order to increase investor confidence.
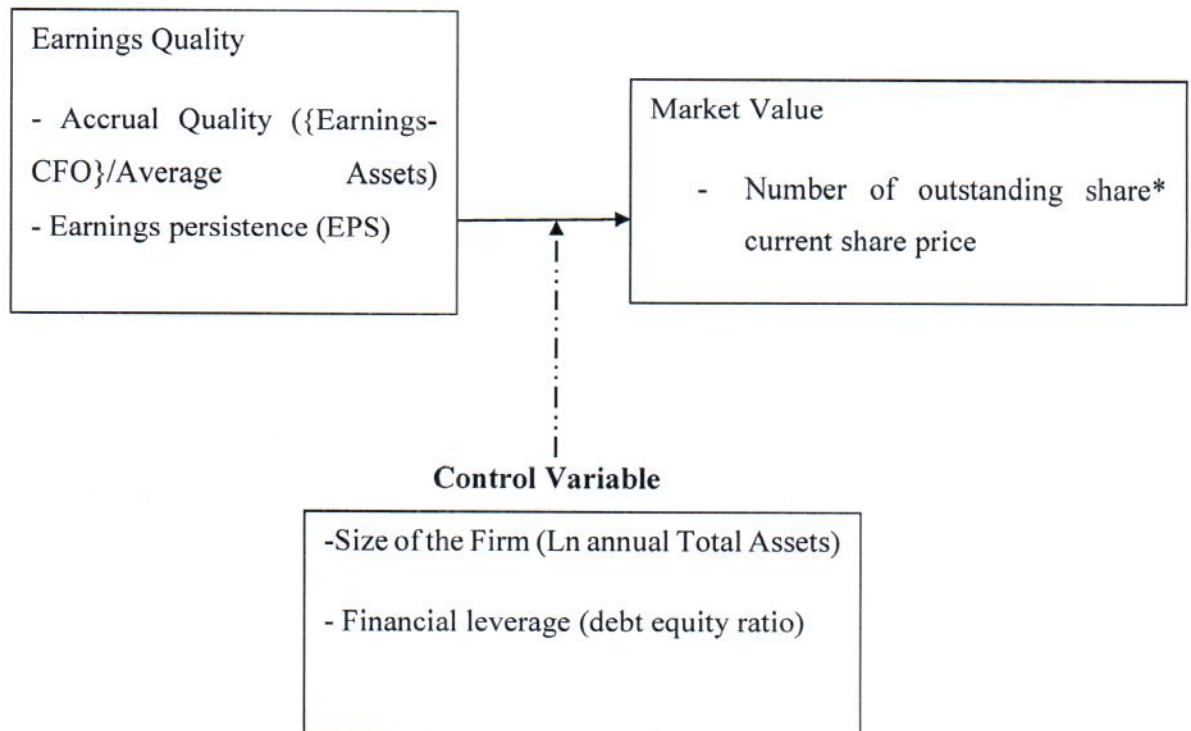
2.5 Conceptual Framework

According to Ravich and Carl (2016), a conceptual framework unifies the thinking of the entire research process and can be represented graphically or narratively. The interaction between indices of earnings quality and financial performance was shown

in the conceptual framework for this study, using company size and financial leverage as control variables.

Independent Variable   **Dependent Variable**

```
┌─────────────────────────────┐          ┌──────────────────────────────────┐
│ Earnings Quality            │          │ Market Value                     │
│                             │          │                                  │
│ - Accrual Quality ({Earnings-│─────────▶│  -  Number of outstanding share* │
│ CFO}/Average    Assets)     │          │     current share price          │
│ - Earnings persistence (EPS)│          │                                  │
└─────────────────────────────┘          └──────────────────────────────────┘
```

Control Variable

```
┌─────────────────────────────────────────┐
│ -Size of the Firm (Ln annual Total Assets)│
│                                           │
│ - Financial leverage (debt equity ratio)  │
└─────────────────────────────────────────┘
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Source: Author (2021)

Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review and Research Gaps

The factors that influence a company's value have been thoroughly investigated. Firm size, leverage, revenue, earnings dividends, and earnings quality are among the most regularly cited determinants in literature as major elements determining company market value. Book value, M/B ratio and Tobin's Q have all been used to describe firm value. Earnings are a crucial criterion for valuing a company, but only if they are of high quality.

The quality of profits is determined by their long-term viability. Accrual quality, persistence, predictability, smoothness, and timeliness of profits are some of the various indicators of earnings quality utilized in the literature.

Several researchers have looked into how earnings quality affects firm valuation. Hung et al (2020), Gaio and Clara (2017), and Choi (2017) are some of the research that show a beneficial effect (2008). On the other hand, studies like Aguguom and Rafiu (2018), Aguguom et al. (2019), and Annes and Domingos (2016) indicate that earnings quality has a negative influence on business value. In their local research, Chepkony (2018) and Ngunjiri (2017) used discretionary accruals to measure earnings management. The studies, on the other hand, did not evaluate the accrual quality. The evidence presented in the preceding research about the relationship between EQ and value is contradictory. Furthermore, within the scope of the research, there is a paucity of information on the impact of EQ on the value of SOE businesses reporting on the NSE. This research seeks to go deeper into the topic by offering new evidence based on NSE data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explained the methodology that was used for this research. The research design was described first, followed by a description of the target population. Following that, sample selection discussed, as well as data sources and data collecting. The last section described how the information was examined.

3.2 Research Design

This describes the technique for gathering and analyzing data. It is based on the study objectives to guarantee that the information gathered is relevant to the research questions (Zikmund, 2003). The descriptive research design was applied in this investigation. The goal of this design is to provide a description of occurrences that affect a certain group. It addresses the who, what, when, where, and how of an issue. It's particularly useful for uncovering relationships between variables, and it's formalized with explicitly defined hypotheses or investigation questions (Cooper & Schindler, 2011).

Descriptive research describes characteristics of a population by concentrating on the 'what' rather than the 'why' of the research topic (Mugenda & Mugenda, 2008). As previously said, the aim of this study is to measure how the quality of earnings influences the firm value of NSE-listed SOEs. To this purpose, descriptive analysis will be used to answer the question, "How does EQ affect firm value of SOE enterprises listed on the NSE?" This research adopted a longitudinal study design approach as it is effective in determining the study variables' patterns over time and ensures clear focus and validity

(Cook & Campbell, 2002). Data for the time over December 2009 up-to December 2019 was analyzed, on a yearly basis.

3.3 Target Population

The populace of the research was 10 state owned corporations. All SOEs firms traded on the NSE between 2009 and 2019 was included in the population of interest. At the end of 2020, the NSE had a total of sixty-three businesses listed, 10 of which are SOEs. The period was expected to offer adequate data for the research to draw accurate results. All 10 State owned Enterprises listed at the Nairobi Securities formed our target population. The SOEs comprised of Housing Finance Group Ltd, Uchumi Supermarket Ltd, Kenya Re-Insurance Corporation Group Ltd, Mumias Sugar Co. Ltd, Ltd Safaricom, KCB Group PLC, NBK, Kenya Airways Ltd, KenGen Ltd, and Kenya Power and Lighting Co.

3.4 Data Collection

Secondary data was used in this study. Secondary information to be gathered include Total accruals, cash flow from operations, inflation rate, annual total assets, number of outstanding shares, share prices. These information was retrieved from annual published report and NSE database. This information ranged from From 2009 through 2019.

3.5 Data Analysis

Researchers used data analysis tools to apply logic to the data they've gathered. It entailed identifying trends and summarizing the investigation's primary findings. It can range from simple frequency distributions and bar graphs to more advanced methods like multivariate analysis (Zikmund, 2003). Descriptive line graphs, inferential statistics Frequency

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distributions was used in this course. The causal effect of the variables was investigated using multiple linear regression.

3.5.1 Analytical Model

With company size and leverage as control variables, smoothness was regressed on market value. The regression model that was employed was as follows:

Market Value (MV) $= \alpha + \beta 1 AQ + \beta 2 EPer + \beta 3 Size + \beta 4 Lev \ \varepsilon$

Where;

MV = Market Value

α = Constant; βi = Coefficient of variable i

AQ = Accrual quality

Size = Firm Size

Lev = Financial Leverage; ε = Error term

Table 3.1 Operationalization of Variables

Variable	Measure	Reference
Market value	Log(Share price * Number of shares)	Hitchner (2003)
Accrual quality	Accruals Quality = (Earnings –CFO) /Average Assets CFO = Cash-flow from operations	(Francis et al. 2004; Lyimo (2014); Jing 2007)
Earnings persistence	The slope coefficient β of the regression; $EPE_t = \alpha + \beta EPS_t - 1 + \varepsilon$	Lyimo (2014)
Firm size	Natural logarithm of total assets	Yanthani et al (2019)
Financial Leverage	$\dfrac{\text{Total liabilities}}{\text{Total Equity}}$	Dalci (2018); Pumomo (2018)

3.5.2 Diagnostic Tests

Diagnostic tests was run to see whether any regression assumptions have been violated. Linearity, normality of residuals, serial correlation, heteroscedasticity and multicollinearity assumptions were all put to the test. The independent and dependent variables are assumed to be linearly connected in regression analysis.

The distance from linearity measure was used to test linearity. The hypothesis that there is a considerable divergence from linearity was tested in this investigation. A P-P plot and histogram was used to test normality, as well as the Shapiro-Wilk test (Cook & Weisberg, 2002). The Beursh-Pagan test (O'Connor, 2000) will be used to determine heteroscedasticity. The Durbin Watson statistic was utilized to check serial correlation,

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while variance inflation factor and tolerance limits was utilized to evaluate multicollinearity (Menard, 2015).

3.5.3 Test of Statistical Significance

The importance of predictor variables was assessed using a t-test with an important level of 5%. The F-test was utilized to determine whether the entire regression is adequate. The corrected coefficient of determination was utilized to determine the regression predictive power.

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This research was conducted with the aim of evaluating how earnings quality affects the market value of state-owned businesses listed on the Nairobi Securities Exchange. The study investigated in detail earnings persistence, accrual quality, financial leverage and firm size and their impact on market value. This chapter presented findings of data analysis and interpretations by laying an emphasis on diagnostic tests, regression analysis descriptive statistics, and discussion of the outcome. The study looked into a 10-year period between 2009-2019.

4.2 Diagnostic Tests

The study carried out numerous diagnostics tests to check if any regression assumptions have been violated. Among the tests that were carried included: normality of residuals, autocorrelation, heteroscedasticity and multicollinearity.

Normality of residuals was conducted with the se of a P-P plot. This plot was utilized to check if a linear connection exists tween variables under the study. Data distributed along the best line of fit in the plot indicates that data is normally distributed.
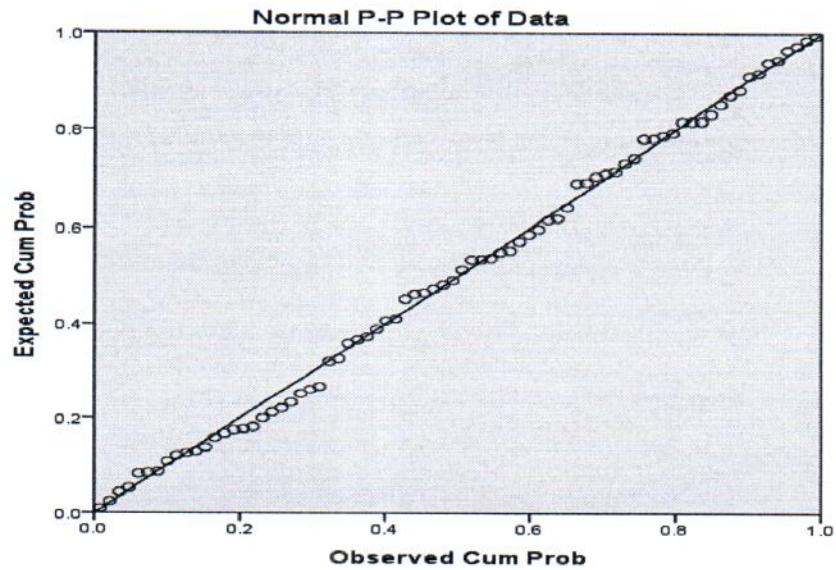
Figure 4.1 Normal P-P Plot

Source: (Secondary Data, 2021)

Autocorrelation was used to evaluate if correlation exists between the values of the same variables across different observations in the data. Thus the test is crucial in pointing out the existence of association that is presented in the variables. The Durbin Watson statistic was utilized by the study to access the presence of serial correlation in the variables. Durbin-Watson statistic value of above 4 is used to indicate that there is negative autocorrelation while if Durbin Watson is less than 4 implies that there is no autocorrelation.

Table 4.1 Serial Correlation

	Autocorrelation
Durbin-Watson	2.863

Source: (Secondary Data, 2021)

From the research findings, it was revealed that the Durbin-Watson statistic is 2.863. This was an indication that autocorrelation was absent in the data.

Heteroscedasticity assesses the error of the independent variable to check if linear regression assumptions have been violated. To examine heteroscedasticity, a scatterplot is used in which of the residuals against predicted values of dependent variable are assessed.

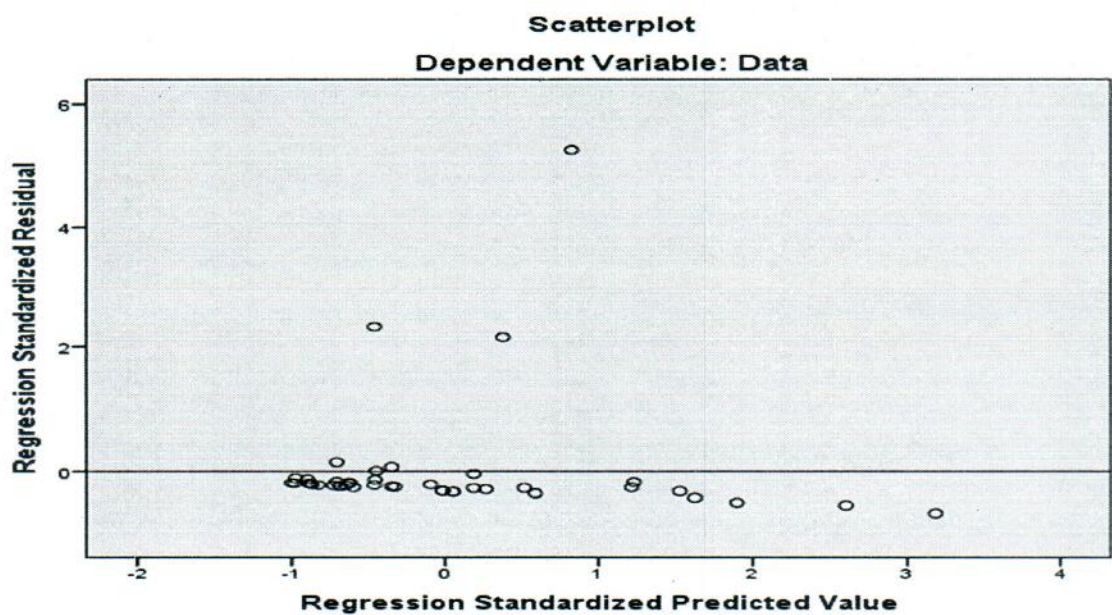**Scatterplot**
Dependent Variable: Data

Figure 4.2 Heteroscedasticity

Source: (Secondary Data, 2021)

Findings from plot show that almost all the data points in data are clustered around line of best fit. This shows that the data used for the study comes from an approximately normal distribution.

The study conducted a multi-collinearity test to check if there was interconnectedness between the independent variables in the study. To do this assessment the study used Variance Inflation factor (VIF). VIF values of below 4 are an indication of moderate or no correlation among the variables under study while VIF values of above 4 indicate high correlation among the variables which could be challenging.

Findings from the study show that the standardized normal values do not deviate much from the line of best fit. This is a show that data utilized for the research is drawn from a fairly normal distributed distribution.

Table 4.2 Multi-Collinearity

	Tolerance	VIF
(Constant)		
Accrual Quality	0.905	1.105
Earnings Persistence	0.848	1.179
Log Firm Size	0.852	1.174
Financial leverage	0.753	1.329

Source: (Secondary Data, 2021)

From table 4.2 it was shown that the VIF factor for all the independent variables was less than 4. This indicated that either moderate or no correlation existed between the independent variables. Hence this was acceptable.

4.3 Descriptive Statistics

To summarize characteristics of the data in a meaningful way the study employed the use of descriptive statistics. Among descriptive statistics that were explored are standard deviation, mean, minimum and maximum. The mean presented the average of the data points. The standard deviation looks into the variability of the data and helps explains how

far the data points are dispersed from the mean. Minimum display the lowest point in data set while maximum display highest point in data set. The study looked into descriptive statistics over a 10-year period from 2009-2019.

Table 4.3 Descriptive Statistics

	Mean	Std. Deviation	N
Market Value	3.1672	.65074	100
Accrual Quality	-0.0617	.12050	100
Earnings Persistence	0.2860	.55622	100
Firm Size	4.9599	.56459	100
Financial leverage	0.3256	.36153	100

Source: (Secondary Data, 2021)

The results of the study showed that the average market price was 3.17 and the standard deviation was 0.65. The average of cumulative quality is -0.0617 and the standard deviation is 0.121. Earnings stability averaged 0.29 and standard deviation 0.56. The firm size averaged 4.96 and the standard deviation was 0.56. Financial leverage averaged 0.33 and standard deviation 0.362.

4.4 Regression Analysis

Regression analysis is always used to estimate the relationship between the dependent variable and the independent variable. The study used regression analysis to measure relationship accrual quality, revenue stability, company size, financial leverage and market value. The findings from the analysis are presented in the model summary, ANOVA table and multiplier table. Model Summary Estimates the extent of variation in the dependent variable caused by a model set with an independent variable. The ANOVA table checks

whether ModelFit is statistically important in estimating the dependent variable based on the independent variable. The coefficient table shows how much the independent variable affects the dependent variable. The results of the study are shown in the following tables.

Table 4.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793[a]	.629	.613	.4047

a. Predictors: (Constant), Financial leverage, Accrual Quality, Firm Size

b. Dependent Variable: Market Value

Source: (Secondary Data, 2021)

The model summary revealed that coefficient of determination R-Square is 0.629. This means that 62.9% of the proportion of variance in market value can be explained by the model that was fitted with earnings persistence, accrual quality, financial leverage and firm size as independent variables.

Table 4.5 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.360	4	6.590	40.229	.000[b]
	Residual	15.563	95	.164		
	Total	41.923	99			

a. Dependent Variable: Market Value

b. Predictors: (Constant), Financial leverage, Accrual Quality, Firm Size

Source: (Secondary Data, 2021)

From Anova table it was shown that F-Statistic was 45.764 at 0.000 level of significance. This level of significance was less than 0.05. Thus this implied that model fit was statistically important to predict market value based on earnings persistence, accrual quality, financial leverage and firm size.

Table 4.6 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.296	0.416		-3.115	.002
	Accrual Quality	-1.976	0.355	-0.366	-5.569	.000
	Earnings Persistence	-0.283	0.079	-0.242	-3.559	.001
	Firm Size	0.852	0.078	0.740	10.922	.000
	Financial leverage	0.594	0.130	0.330	4.580	.000

Source: (Secondary Data, 2021)

From the coefficients table it can be shown that the model fit for predicting market value is;

$$Y = -1.296 - 1.976 X_1 - 0.283X_2 + 0.852X_3 + 0.594X_4$$

Where:

Y: Market Value

X_1: Accrual quality

X_2: Earnings Persistence

X3: Firm Size

X4: Financial leverage

4.5 Discussion of the Findings

From the coefficient table it was shown that the constant value was -1.296. This implied that if all the factors were held constant then market value would have a value of -1.296. From the study findings, it was shown that accrual quality displayed a negative impact on the market value as shown by the beta value of -1.976. Earning persistence was also shown to have negative impact on market value as shown by beta vale of -0.283. Firm Size alternatively was found to have a positive impact on market value as shown by the beta value of 0.852. Financial leverage was determined to possess a negative impact on market value as shown by beta value of 0.594.

Findings from this research agree with those of Ngunjiri (2017) who looked into the link between profits management and the success of Kenyan public firms. Findings from this study showed that earnings management, book value ration and firm size possess a positive impact on financial success of the firms.

Results of the study were in agreement with those of Aguguom and Rafiu (2018) who investigated the relationship between emotional intelligence (EQ) and financial success in Nigerian firms. Conclusions drawn from this study indicated that Market value was found to be harmed by poor accrual quality and earnings predictability.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The section presents summary of findings, finalization, and recommendations guided by the objective of the research which was to access the impact of earnings quality affects the market value of state-owned businesses listed on the Nairobi Securities Exchange. This chapter further presents limitations of the research and suggestions for further studies.

5.1 Summary of the Findings

From the normality of residuals, serial correlation, heteroscedasticity and multi collinearity diagnostic tests it was determined that the study utilized data that came from a normal distribution.

From the descriptive statistics it was determined that: market value had a standard deviation of 0.673 and mean of 3.173. Accrual quality posed mean of -0.0583 and standard deviation of 0.125. Earning persistence posed a mean of 0.66 and standard deviation of 0.0. Firm size had a standard deviation of 0.577 and mean of 4.969. Financial leverage had a mean 0.327 and standard deviation of 0.327.

From the regression analysis it was realized that 61.5% of variation in market value was due to earnings persistence, accrual quality, financial leverage and firm size. Further the finding pointed out that a model fit with earnings persistence, accrual quality, financial leverage and firm size was statistically significant to predict market value. The results from the coefficient table showed that accrual quality, earnings persistence and firm size were

positive predictors of market value while financial leverage as determined by inflation rate was a negative predictor for market value.

5.2 Conclusion

From the study results it was shown that accrual quality had a positive effect on the market valuation. This implied that firms in the NSE that had greater accrual quality had better market valuation. The findings of the study also concluded that earnings persistence and firm size had a positive effect on the market value of firms listed in NSE. This implied that consistent earning and increase in firm size as defined by total assets contributed to a significant increase of the firms' market valuation. Financial leverage as defined by inflation rate of the economy was determined to be have a negative impact on the firms' market valuation.

5.3 Recommendations

From the study results it was finalized that accrual quality, earnings persistence and firm size were positive and significant predictors of market value. Thus the study concluded that the firm management should engage in activities that ensure profit maximization of the firms so as to ensure that the accrual quality and earnings persistence so as to realize an increased market value of the firm's consistency.

The research also recommends that the firm's management also ensures that the financial performance of the firms is steadily lucrative thus to ensure that the firms are in a position to continue accruing assets so that the firm size of the firms grows and hence a subsequent increase in market value.

The research also recommends that the government puts in place measures that regulate the amount of inflation in the economy. This is to ensure that the economy is able to operate favorably thus to ensure that businesses are able to grow.

5.4 Limitations of the Study

The research was limited to companies listed to 10 companies that were listed in NSE. This implies that the results of study can only be inferred to the companies that were investigated. Hence inferring these results to other companies would invalidate the results.

The research was limited to accuracy of data. This is because the study used secondary data that was sourced form NSE website and the firms that were under study. Hence the researchers cannot verify the accuracy of the data and as it was used directly as it was sourced.

The study was also limited to a 10-year period between 2009 to 2019. This implied that the findings of the study were limited to this period and hence cannot be inferred to any other period.

5.5 Suggestions for Further Studies

From the results of this research it was determined that 61.5% of the variation in market value was due earnings persistence, accrual quality, financial leverage and firm size. Thus it is significant for other studies to examine what other factors account for the remaining 38.5% variation in market value.

The study was limited to a 10-year period and 10 firms listed in the NSE. It is important that other researchers look into other time frames and other companies that are listed in the

NSE. This will help to conclusively come up with information about how earnings quality affects the market value of state-owned businesses.

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APPENDICES

APPENDIX I: LIST OF SOE's

The list of State Owned Enterprises listed in the Nairobi Securities Exchange;

i)   Kenya Power Lighting Company

ii)   Kenya Electricity Generation Company

iii)   Kenya Re-Insurance Corporation

iv)   Kenya Airways

v)   East African Portland Cement Company

vi)   Housing Finance Company of Kenya

vii)   Kenya Commercial Bank

viii)   Uchumi Supermarket

ix)   National Bank of Kenya – Suspended

x)   Mumias Sugar Company – Suspended

APPENDIX II: DATA COLLECTION FORM

Measure	Year 2019	2018	2017	....	2011	2010	2009
Total Assets							
Inflation rate							
Total accruals							
Cash flow from operations							
Share price							
Number of outstanding share							