# THE EFFECT OF EARNINGS MANAGEMENT ON REPORTED FINANCIAL PERFORMANCE OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

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# DECLARATION

This research project is my original work and has not been presented for any award in any other university.

Signed………………………………………. Date…………………………….

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D63/89206/2016

This research project has been submitted with my approval as the University Supervisor.

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Furthermore I specifically acknowledge my supervisors, who have given themselves tirelessly to guide me through the research project. Their guidance is indispensable.

## DEDICATION

I humbly dedicate this research project to The Almighty God for his sufficient and also to my friends, family members, and colleagues for their motivation as well as assistance in my entire course.

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## ABBREVIATIONS AND ACRONYMS

**BSE:** Bombay Securities Exchange

**CEO:** Chief Executive Officer

**CMA:** Capital Markets Authority

**DSE:** Dar-es-Salaam Stock Exchange

**EBIT**: Earnings before Interest and Tax

**EM:** Earnings Management

**GAAP:** Generally Accepted Accounting Principles

**NSE:** Nairobi Securities Exchange

**ROE:** Return on Equity

**ROA:** Return on Assets

# ABSTRACT

The objective of the research sought to ascertain the effect of earnings management on reported financial performance of firms listed at NSE in Kenya. This research used earnings management to represent the independent variable whereas financial performance was used to represent dependent variable. Stock price, financial leverage and firm size were used as the control variables. Study used descriptive research design which helped to explain the characteristic behavior of one variable because of another variable. The study selected all the 65 listed firms at the NSE. This study adopted census approach and thus all the listed firms formed the study sample frame. From regression results earning management, stock price, financial leverage and firm size explain 73.00% of the difference in the dependent variable which is financial performance. In addition, there was a positive and notable correlation between earnings management, stock price and firm size and financial performance. However, financial leverage had a positive and insignificant result on the reported financial performance. Hence this study deduced that earning management, stock price and firm size indicated a positive significant impact on the reported financial performance of listed firms at NSE. However, financial leverage does not indicate notable impact on reported financial performance of firms listed at NSE. The study advocates the users of financial statements especially those who wish to make decision basing on them should first evaluate whether the related firms engage in earnings management so that the decisions made can be correct ones. The study also advocates that the governance structures of the listed firms at NSE should ensure they maintain high stock prices so as to boost the financial performance of their respective firms. Furthermore, the study advocates that the management of the listed firms at NSE firms should ensure they hold adequate level of financial leverage to ensure that they do not affect other functions of the firm. The study recommends that top management of listed firms should set up strategies of growth and expansion in sizes for example growth in market segments and shares. One way of achieving growth may be through mergers and acquisition where a small firm in a small industry can decide to merge with another larger firm resulting into one large firm that commands the entire large market. This will help to boost the performance of the listed firms.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Current fall of a portion of the biggest organizations worldwide as a result of bookkeeping manipulations has brought up major issues to do with capability of various monitoring gadgets presumed to secure interests of the investors and curb the behavior of crafty managers. The checking gadgets incorporate distinctive corporate administration factors, for example, audit committee independence , directors who are independent in corporate boards and different components which might influence power sharing central to the board, consequently, quality of corporate administration structure and its viability in securing the interest of the shareholders' (Heninger, 2001).

Earnings Management alludes to managers of the firm practice to undertake managerial actions on company's performance variables, which are reflected in the company yearly financial statements. Practice of earnings management inside firm's aims at giving impression of smooth annual earnings by showing high profit for the current accounting period at the expense of future earnings or to lower the current earnings in order to report high earnings in the future (Ronen & Yaari, 2008). It is therefore the deliberate altering of financial information reported in the annual financial report in order either to mislead the users on basic economic condition of the firm or beneficial contractual gains , which rely on the reported bookkeeping numbers in the financial statement (Healy &Wahlen, 1999).

Studies have shown that countries with weak rule of law are more subject to earnings management problem as compared to countries with strong rule of law especially on financial matters (Dyreng, Hanlon & Maydew, 2011). It is clearly known that the financial reports prepared by an organization are the mirror used by stakeholders to evaluate the performance of the firm hence quality of reports significance. Statements users make financial decision basing on the information displayed, judge the management competence using the information and serve as the benchmark for forecasting future performance of the firm. The manipulation of earnings by either reason is therefore detrimental practice to various stakeholders that use the financial statements to make decision depending on such statement, detrimental to the performance of the firm as well as to the wealth of the shareholders (Cornett, Marcus & Tehranian, 2008).

### 1.1.1 Earnings Management

Matoussi and Kolsi (2006) perceive that the present malpractices in relation to financial management, facing corporations' accent that corporation that are under intense legal investigations have practiced extreme methods of manipulating earnings so as to change their transactions reporting. According to Akers, Giacomino and Bellovary (2007), they defined earnings management to indicate the endeavors of the managers of the firm to manipulate or influence reported earnings by use of particular accounting methods, (or making alterations to), acknowledging one-time non-recurring events, accelerating or postponing the events relating to expense and revenue, or through the use of other practices that are designed to influence the earnings in the short-term period. As far as signaling theory is concerned, earnings inform the capital market the scope of the corporation's involvement in the events that are of value addition for a given accounting period. Consequently, the management of the company has an interest in understanding the amount of earnings generated as well as the way it is presented in the financial statements. Earnings management is performed by managers for various objectives through the use of different methods. Healy and Wahlen (1999) are of the opinion that management primarily manipulates earnings due to the following incentives that include the capital markets incentives and regulatory incentives , external contract motivations and management compensation contract incentives,.

The other different methods practiced in the management of earnings are; manipulating research and development costs and sale and leaseback, practicing revenue recognition methods, timing of the operating expenses and unrealistic assumptions to estimation of liabilities (Matoussi & Kolsi, 2006). Carlos, Yun and Gerald (2008) presented the following methods that are practiced in the management of earnings that include making adjustments to the trades receivables and bad debts allowance, gains or losses from disposal of assets, use of different depreciation methods and adjusting the operating income among others. Hence, the choosing of the methods of accounting is found on the assertion that management has the volition to select various accounting techniques or polices of which their actions will consequently increase or decrease accounting income.

Income smoothing approach has a direct aim that is to lower the short-term volatility of earnings and consequently reporting an even series of profits (Imhoff, 1977). Never the less, the main challenge experienced in the application of this method; is that the researcher may find it hard to differentiate the conventionally smoothed earnings from the deliberately smoothed earnings. According to Sun and Rath 2010, tremendous growth has been experienced in the application of accrual concepts in research concerning earnings management. However, it has been observed that management may prefer using discretion in accruals instead of cash flows simply because accruals are less noticeable.

There are several techniques of measuring earnings management. However, the commonly used technique in measuring earnings management is discretionary accruals. Jesus and Emma (2013) used discretionary accruals to calculate earnings management. Iraya, Mwangi and Muchoki (2015) also used the discretionary accruals tool to estimate earnings management. Consequently this study will adopt discretionary accruals to calculate earnings management.

### 1.1.2 Financial Performance

To measure the financial performance, the research used EBIT, that is: earnings before interest and tax: it is the ratio between profitability and capital employed. Cornett et al. (2008) noted that EBIT is vulnerable to manipulation by managers by the use of accruals that involve sales and trades receivables and the presentation of depreciation and amortization.

In acknowledgement of the likelihood of the management to misconceive financial performance by using discretionary accruals, this study approximates true financial performance as the residual of EBIT over discretionary accruals. The concept is in concurrent to Cornett et al. (2008) who noted that since the discretionary component of accruals is excluded, adjustments in this measure should reflect true performance instead of just mere cosmetic influence of management on the reported performance. Hence true financial performance of the firm is equal to EBIT less discretionary accruals.

### 1.1.3 Earnings Management and Financial Performance

Most of the principal theories agree on the existence of a positive relationship in regard to profitability and the quality of financial reporting. In view of the agency theory, the management of profitable firms tends to normally make use of the information so as to stabilize their positions as well as inflate the compensation amounts. Firm’s profitability has been exercised both directly and indirectly in the compensation contracts. For instance, Bushman and Smith (2001) observe an increased evidence of the direct use of yearly bonuses arrangement in firms executive’s long-term plans on performance.

Additionally, there is also indirect use of the determinants of profitability to assess the board of directors as well as remunerate apex managers, which confirms the relationship between the measures of profitability and different techniques of executive pay. Management will tend to exercise accruals that increase income during declines in growth so as to stabilize the impression of sustainable growth but the management of firms that exercise bonus plans will tend to select accounting techniques that transfer corporate’s stated earnings from subsequent times to the present periods which aim to raise the firms reported income. Consequently, if a portion of the management pay is obtained from incentive plans that are in relation to company’s stated earnings, the management will then have an incentive to exercise techniques of accounting aimed at increasing the earnings. However, there are substantiations that accruals will likely be opportunistically manipulated by management so as to hide substandard performance or delay part of unusually good current earnings to future periods. Furthermore, managers manage earnings to evade loss reporting and decreases in the earnings.

While Astami and Tower (2006) did not find any notable correlation in regards to the profitability of the firm as well as the selection of methods of accounting by management, Bekiris and Duokakis (2011) realized an indicative negative relationship as far as profitability and earnings management are concerned. A study done carried out by Hassan and Ahmed (2012) inferred that the most widely recognized exercises of income administration are accruals exercised by organization so as to augment or reduce reported. This is a demonstration of how the act of accrual based earnings management has oppositely impacted the association monetary performance.

In their research, Kang and Kim (2011) expressed management of income based on accruals negatively affected shareholders exact access to the genuine financial performance of an organization. As a consequence to this, the long haul organization performance reaction to disturbance might be influenced. For this circumstance, an expectation of earnings management based on accruals is to generate negative relationship with organization financial performance. With respect to this estimation, genuine financial performance of the company is deprived of the effect of shrewd earning management methods by the organization, which is depended upon to mirror the organization values. From the studies above, indeed there is existence of a noteworthy relationship in as far as the reported financial performance of the listed firms and the earnings management is concerned.

### 1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE); this is a market that deals with trade of securities that are issued by government and public quoted firms. The Capital Markets Authority (CMA) is the licensor and regulator of Nairobi Securities Exchange. It has the order of giving an exchanging platform for securities that are listed and regulating its Member Firms. There are 65 firms authorized under the NSE as at 2017 which are classified in various segments relying upon their inclination of activities and operations; this is given in Appendix III of this study (www.nse.co.ke).

Previous empirical studies conducted in Kenya concluded that there are various relationships between earnings management and stock market returns. Ogello (2014) analyzed the connection between value income proportion and stock returns for organizations listed at the NSE and presumed that greater part of the organizations had low price profit proportions bringing about higher returns in stocks; firms with less needs of reinvestment have higher value profit proportions compared to firms that have more reinvestment rates.

## 1.2 Research Problem

Financial reporting quality is the accuracy by which the financial report communicates information that relates to the operations of the firm, that is, the expected cash flows, so us to enlighten the various stakeholders of the firm Verdi (2006). However, Schiller and Vegt (2010) were of the opinion that the quality of accounting has several dimensions. Hence they employed a concept that is of two-dimensional, it involved, first establishing the existence of a faithful representation of the financial statements; this implies that the report concerning earnings is unbiased. For the report that is unbiased, it will result in the better reflection of the value of the shareholder in the price of the securities. The second thing they established is the timeliness of the report. If management receives financial information in advance, the initiation of interim reporting will lead to a more timeliness if there is information disclosure at the interim phase as compared to if the information is disclosed at the very end of the firm's financial period. In conclusion, they explained that the quality of financial reporting is enhanced if, in regard to a given level of timeliness, then the level of faithfulness increases but also, if in regard to a given level of faithfulness, and there is better timeliness. This implies that financial reporting is expected to avail information that can assist various stakeholders evaluate the amounts, timings of the funds, and uncertainty relating to the prospective net cash inflows to the respective firms. Information concerning the company's reported income and its transactions treated by accrual accounting will normally give a better indication of the firm performance as compared to information that relates to the current cash receipts and payments (IASB, 2010). According to Healy and Palepu, 2001, the much witnessed increase in demand for excellent financial reporting and disclosure stem from the aspects of information asymmetry as well as agency conflicts that occur between management as well as the other investors outside the firm. Hence, the motive of firm reporting aims at availing important information to users so as to make economic decisions and so forth. Standards & Poor's (2003) noted that, the confidence of the investors as well as the market efficiency relies on the disclosure of the information about the financial performance of the firm that is accurate as well as timely.

It is difficult to expect a good financial report to come from the firm that has poor structures of governance. Hence, improving the corporate governance contributes immensely to increasing the level of financial reporting (IFAC, 2009).

The NSE has experienced drastic volatility in its stock prices as a reaction to market environment which have ranged from financial crisis of 2008, political election, other government activities and the general performance of the Kenyan economy. (www.nse.co.ke).

This has affected market returns of most securities. Nonetheless, NSE has continued to see increased number of listed companies such as Safaricom and ARM Cement and robust performance of some listed companies particularly from insurance firms and investment holdings companies in 2013. The increased market volatility in the securities market had a direct effect on the price of securities. This negatively affected some small or individual investors who experienced shrinkage or altogether lost their investment in the market.

This was because some of them are not keen on the changes in stock market returns and the trend of changes hence does not review their earnings management as a response to market fundamentals. (www.nse.co.ke).

Although the problem of earnings management effect on firms performance of the firms is indicated to be high in developing countries (Dyreng *et al*. 2011), the extent of the problem in Kenya is not yet known. There are a few empirical studies conducted in the field of earnings management and especially on earnings management impact organization performance. The fact that capital market in the country is at its growth stage and more firms want to register and acquire the public funding, there are possibilities of earnings management so as to attract investors to purchase shares, but which have not yet been explored to know the extent of the problem and its impact to the performance of the companies.

Previous studies conducted on impacts of earnings management on firms' performance reveal that there is a gap since they were conducted in other nations for example, Gill, Biger, Mand and Mathur (2013), Safi and Shehzadi (2015), Sayari, Omri, Finet and Herrathi (2013) and Moshi (2016). Further, the existing local studies reveal a conceptual gap since they do not focus on the impacts of earnings management on reported performance of the firm, for example, Iraya, Mwangi and Muchoki (2015), Mboka (2014), and Musyoka (2015). None of the local studies have focused on the effect that earnings management has in regard to reported financial performance of listed firms at NSE.

This study thus aim to bridge this prevailing knowledge gap and presents the following question; what is the effect of earnings management on reported financial performance of firms listed at the Nairobi Securities Exchange?

## 1.3 Research Objective

To determine the effect of earnings management on the reported financial performance of listed firms at NSE in Kenya.

## 1.4 Value of the Study

Findings from the study will benefit researcher and academician since it will additionally enrich existing earnings management and performance of the firm literature. These individuals will thus use this study finding to build on their researches.

The findings of this study will also benefit both local and foreign investors; especially when making investment decisions.

This study will provide more insights on the best companies to invest in. It will also contribute to improved understanding of how earnings management aspects impacts on firms' financial performance.

Further, this study finding will be valuable to the regulators of financial markets as they will provide some evidences on earnings management hence enable them to take appropriate actions so as to ensure that the investors and shareholders are safeguarded. Moreover, the empirical discoveries from this study will be resourceful in terms of policy setting by CMA. It might be used to provide guidance on promoting policies that uphold good corporate governance.

For the managers of the firms, study’s findings will provide them with some insights into their firm’s earnings management effects on performance hence enabling them take relevant actions to mitigate the problem.

Lastly, this study will serve as a key purpose in as far as contribution to theory is concerned. The study will help understand the importance of agency theory and efficiency theory, their application and how they relate to the empirical findings of this study. Researchers who are interested in this area will also have an opportunity to utilize the basis of this study finding for further study.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter section presents literature review. First, highlights on theories of earnings management are reviewed and presented. Secondly, this section gives knowledge on the findings of different studies, comprehension of the contributions earnings management practices have on firm's financial performance. Relationship amongst earnings management as well as financial performance of listed firms at NSE was discussed.

## 2.2 Theoretical Framework

Numerous theories have attempted to illustrate the relationship amongst earnings management and performance of the firm. This study adopted three of these theories namely; agency theory, efficiency hypothesis and fisher theory.

### 2.2.1 Agency Theory

Agency hypothesis spell out connection amongst business owners who are the principal and the managers who are the agents of the owners. In modern firms, due to the firm's size, the dispersion of ownership in which there are huge number of shareholders and the nature of business which requires professionalism, the owners of the business cannot manage the operations; hence they hire the managers who can operate the business on their behalf. Managers though are required to operate for benefit of the owners, some time they operate at their own interest hence causing principal agent problem.

According to Jansen and Meckling, (1976) the agency theory is vital in clarifying the conduct when one person delegates work to another with expectation that the agent chooses a decision that represent the best interest to the principal. The agency theory informs this research since it clarifies the EM concept. In particular, firm managers are enticed to orchestrate firm earnings so as to increase their remuneration. According to (Booth & Schulz 2004), managers' remunerations usually depend on the firm earnings. Managers may therefore report high earnings, so that they can earn more.

### 2.2.2 Efficiency Theory

According to information efficiency theory, the market is said to be effective when all accessible information is contained in the cost of the offer. Hence, there is correlation between information and the stock prices in the market. Information efficiency theory provide three level of efficiency, the weak form where only past data is shown in stock price, the semi strong form where both past and present information is shown in stock price and the strong form where all data, the past, present and future information are reflected in the stock price (Ross, Westerfield & Jordan, 2006).

According to literature, only declared information is the one that is supposed to be reflected in the stock price and not the accounting value presented. Accounting value contains information, such information is very important than the figure itself hence, adjustment or modification in the figures (earnings management) has no impact on cash flows and cannot provide information to the market which should be shown or affect the prices of the share (Foerster, 2009). Efficiency theory is indeed applicable to this study since it discloses the significance of providing accurate information about firm's earnings, especially, to the stakeholders. When stakeholders have accurate financial information, then, they are able to make informed financial decisions, which translates into improved financial performance and the vice versa is also true.

### 2.2.3 Fisher Theory

Fisher (2003) theorized that ex-risk ostensible financing cost ought to completely foresee movements in expected inflation, remembering the true objective to produce real rate of interest at equilibrium. Expected real interest rate is dictated by aspects which are real, for example, capital productivity and time propensity of consumers, it's also free of normal Firm size, Fisher theory therefore can be reached out at any advantage, such as, common stock ,real estate, , and various risky securities.

Empirical relationship amongst earning management and the common shares; was initially probed by Nelson (1976), Jaffe Mandelker (1976) and Bodie (2008). Despite the way that utilizing distinctive empirical approaches, all the authors closed for a critical positive connection between the mediators of earning management return of the stocks.

In view of these leading studies, Fama and Schwert (2007) examine the earnings management influence on various assets. Their presumption was that, like past investigations, common stocks appear to function ineffectively as hedging factor counter to various determinants of stock returns. Considering prior studies, empirical writings on Fisher theorem has been productive, and consequently the outcomes being widely comparative (Park, 1997).

Fisher theorem earlier studies were concentrated upon with recording and portraying the idea of connection amongst stock returns and earnings management, and not results clarification. Optional clarifications have developed though a few. The Tax-Effect Hypothesis advanced by Feldstein (2004) implies that earning per share create artificial gains in capital because of the assessment of depreciation and stockpile (generally ostensibly settled) conditional to tax assessment consequently resulting to increase in price earnings ratio and hence decreases real after-tax earnings. Investors who are rational consider this impact of inflation by diminishing normal valuation of stock. In essence, inflation "causes" shift in prices of stock.

Fisher's theory offers critical and fundamental insights into how earnings management affects performance of stock returns, which translates into firm performance. In regards to the studies that Fisher hypothesized, most studies found relationship which is positive amongst the proxies of stock returns and earnings management.

### 2.3 Empirical Review

Gill, Biger, Mand and Mathur (2013) study investigated whether the act of earnings management that affects and maybe benefits Indian companies' management affects an organizations' performance, and whether earning management affects different stakeholders. Study applied a co-relational research design. 250 firms were chosen as a sample from 500 topping companies recorded on BSE for a time of 4 years (from 2009-2012). Study findings revealed that the more extreme the act of earning management, the more prominent its unfavorable impact on corporate ROA in the following year. Study likewise found that to some degree, the market understands that management acts with narrow minded intentions and reacts by lowering prices of the shares and corporate market value. Study adds to the literature on the association among a few earnings management highlights and performance of the firm, and the firm value.

Safi and Shehzadi (2015) study examined the effect of EM on performance of Pakistan based firms. Study utilized a big specimen of 317 companies recorded on Karachi Stock Exchange ranging for the time of 10 years (from 2002 to 2012). Study outcomes indicated that the EM has a fundamentally positive effect on ROA. The findings suggest that firms that are managed by the family are predominant in Pakistan and they empower controlling shareholders to be checking on the managers and confining them from utilizing unreasonable earning management practices. Study recommended that managers, investors and analysts should use the findings of this study for decision making, which will enable them to understand the EM-performance relationship.

Llukani, (2013) study assessed the ramifications of earnings management firm size in Albanian Market. The study reported that, Albanian market firms participate in EM activities and no noteworthy differences between EM activities and practices among small as well as vast size organizations. This research employed Jones modified model for discretionary accruals to estimate the EM level of the firms.

Sayari, Omri, Finet and Herrathi (2013) study assessed the influence of EM on securities returns in Tunisia firms. Results of the study demonstrate that earnings management in light of discretionary accruals has huge effect on firm value. A Study by Fattahi, Addin and Abtahi, (2014) which examined the effect that earnings management has on value importance of bookkeeping data of recorded firms at Tehran Stock Exchange report different findings contrary to what was reported by the above studies. According to this study, earnings management doesn’t have any significant relations to the value importance of bookkeeping information.

Moshi (2016) study assessed the effect of EM on firm profitability. Study was conducted in Tanzania in which manufacturing firms registered at Dar – es -Salaam stock exchange was used as study cases. The study used Jones revised model for discretionary accrual to measure earnings management while firm's performance was measured using net profit margin as a measure for profitability, debt to equity and debt to asset as proxy measures for leverage, return on asset as a measure for asset management performance and current ratio as a measure for firms liquidity level. Findings from the study revealed manufacturing firms at DSE engage in earnings management.

Most of the firms were found to be managing earnings downwards. The relationship amongst earnings management and performance as per results shows that, earnings management has consequence on firm's performance but nature of impact depends on the variables used for measuring earnings management. Further, the study found out that earnings management did not have any notable correlation with return on asset, debt to equity and debt to asset on the one hand, while on the other hand it was found that earnings management has significant impact on current ratio and net profit margin. On study findings basis, study recommends registered firms at DSE should present their statements fairly to enable investors to make correct decisions.

Musyoka (2015) study sought to determine impacts of board structure on earnings management of organizations recorded at the NSE Kenya. The study used a descriptive study that is intended to explain a characteristic behavior of one variable because of another variable. The population of the study included 64 listed firms in NSE as at 31 December 2014. Study used secondary data. Study employed a multiple regression model to determine the connection amongst earnings management and the board structure. The study found out that the board size, board independence, board activity, gender diversity, age diversity, ethnic diversity and financial leverage strongly affect earnings management among listed firms in the NSE.

Iraya, Mwangi and Muchoki (2015) study assessed the effect of corporate administration methodologies on EM of listed firms at NSE. The study discovered a significant relationship between EM and corporate administration methodologies. Recommendation from the study were of the need for corporate governance practices which are effective for Kenyan listed companies contribution to diminished earnings management and prevent probable death of Kenyan recorded companies.

Mohammed (2010) investigated the impacts of EM on the prices of stocks of listed companies at the NSE. Study's objective was to analyze if the announcements earnings produce abnormal returns and also the periods of abnormal returns of listed firms at the NSE. The data ranging from the year 2004 -2008 from NSE Daily stock and NSE handbook was extracted and was analyzed using SPSS and the aim was on the comparison of the critical t-value and table t-value, the data was then displayed through tables and graphs.

The study found statistically negative abnormal returns were discovered in the earnings before and after announcements of listed firms at NSE. As matter of fact, several elements to be discussed during announcements of earnings are public information before the earnings announcements of which no one would anticipate change in prices of the shares that brings about abnormal gains or losses. Consequently, unusual gains or losses are solely noticed as long bad or good news emerge out of the announcements of earnings.

Mboka (2014) examined relationship amongst corporate administration practices and EM amongst recorded companies in NSE. Descriptive research design was adopted for the study. Study based findings concluded that board size positively and noteworthy impacted the earnings management among companies recorded in Nairobi Securities Exchange. Study additionally concluded that board independence negatively but noteworthy influenced the earnings management among listed companies in NSE. Study further revealed CEO Duality positively and noteworthy impacted the earnings management amongst listed companies in the NSE although effect is moderate. The study also concludes that ownership structure negatively but significantly influenced the earnings management among listed firms at NSE.

Oduma (2012) research tried to set up the connection amongst earnings management and returns of the stock market amongst organizations recorded at NSE. This research employed a descriptive research design which was directed at exploring connection amongst earnings management and returns of stock market among organizations recorded in NSE. 66 organizations cited in the NSE as at 31st December 2014 were taken as study populace. Census approach was utilized for study. The study findings revealed that firm size, earnings management, market to book value proportion, affected returns of the stocks.

### 2.4 Determinants of Financial Performance

This section discusses the determinants of financial performance of firms listed in the NSE. The factors discussed include; earnings management, stock price, financial leverage and firm size. This was done in line with the objectives.

#### 2.3.1 Earnings Management

Jones (2011) set that earnings management is a basic issue for partners and financial specialists. Financial specialist's assessment of a firm performance relies upon choosing an estimation model of earnings management. Ronen and Yaari (2008) characterized the EM into two classifications; esteem improving income administration and opportunistic EM. The examination additionally characterized Value-improving income administration as a route for supervisors to set up affinity with proprietors by flagging worth applicable data without diving into an excessive number of awkward subtle elements. Securing the altruism of the proprietors is significant while they characterized the other sort as a direct result of the irreconcilable circumstance amongst investors and administration and on the grounds that, all in all, those having private data makes it less demanding to utilize it to the benefit of its holder to the detriment of others.

### 2.3.2 Stock Price

When evaluating a firm, investors usually rely on accounting information that is presented on securities markets. Therefore, the management of the firms is usually encouraged to manage earnings so as to affect the prices of the securities (Degeorge et al., 1999). Therefore they are prompted to reach a certain limit (Graham et al., 2005), more so when the earnings achieved are below certain set targets (Cormier et al., 2006). This scenarios include the value "zero" of the prior year and the forecast of analysts (Degeorge et al., 1999).

Furthermore, Roychowdhury (2006) observes that whenever result is near zero, management is motivated to manage earnings so as to mitigate losses. However, inferior performance will consequently motivate management to manage earnings in a manner that will result in this weakness become less noticeable. Earnings are also managed so as to achieve consistent increasing results. It is important to note that, alternating earnings negatively affect value of securities. For instance, DeAngelo et al. (1996) indicates that there is a drop in the stock prices when the firm experiences interrupted earnings and therefore they display earnings that are equal to or earnings that exceed those of the previous years.

Stock prices depend largely on achieved earnings hence managers can manage earnings so as to mitigate the reduction in the value of the firm that can be caused by a decrease in share prices. Therefore, management aims to align earnings with market expectations to make positive reactions when publishing the financial statements. Other studies focus on the correlation between earnings management and the decision to short or long shares. These studies show that managers manage earnings upward before any act of issuing shares so as to increase the prices of the stocks. Hence, Cheng and Warfield (2005) pointed out that management of firms adopting equity-based compensation strategy, engage in upward management of earnings so that they can increase stock prices. Some others researchers argue that the preservation of reputation is also a motivation to earnings management (see Hirshleifer, 1993). Then, some managers manage earnings upward for fear of being dismissed as result of the poor performance of the firm.

### 2.3.3 Financial Leverage

Jiang and Anandrajan (2008) indicates that organization with financing requirements and organization moving toward debt agreement default causes have larger amounts of accruals abnormality, an indicator of higher occurrence of GAAP infringement as well as higher probability of bookkeeping fraud being committed. This necessitates the need to set up a viable board and audit committee to effectively govern the firm and build a corporate reputation to the investors.

Further, Klein (2002) argues that obligation to assets ratio is utilized to substitute for impacts of obligation pledges on earning management. The higher the leverage, the more probable supervisors will pick income diminishing. This contrarily impacts on the firm performance since it doesn't mirror a genuine picture of the financial statements (Cornett et al., 2007).

### 2.3.4 Firm Size

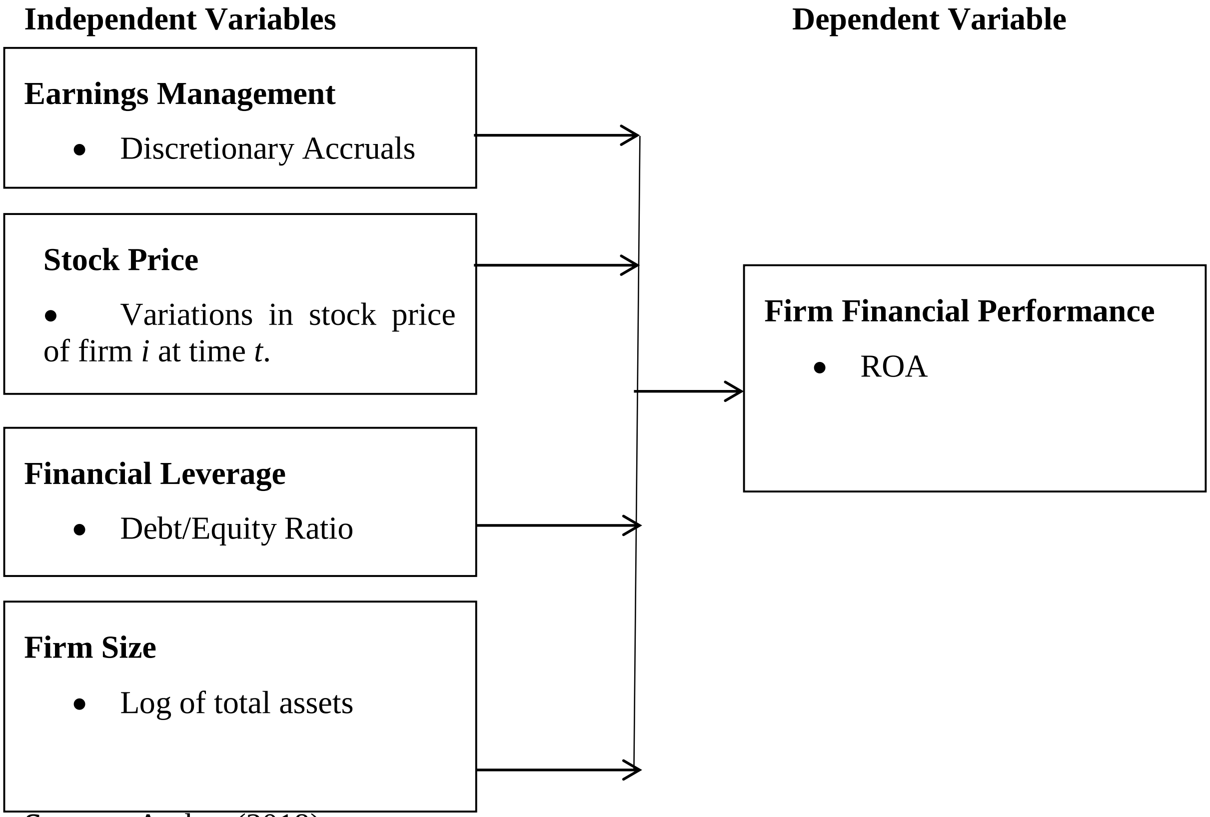
Heninger (2001) suggests that large firms confront more noteworthy political costs in respect to their little partners. Therefore, vast organization might have more noteworthy stimulus to oversee earnings on a downward trajectory to run from such imperatives.

Myers and Omer (2003) contend that earnings management maybe lower in vast firms in comparison to different organization that have diminishing data asymmetry, more grounded administration structures and more grounded external monitoring. For this situation common log of aggregate resources is utilized as an intermediary for the firm size (Rashidah & Fairuzana, 2006).

## 2.5 Conceptual Framework

Mugenda and Mugenda (2013) characterize a conceptual framework as model which is a theory recognizing the model of the research and the connection between the explained and the explanatory constructs. In this study, an inverse association is expected between EM and firms performance. Further, the relationship between stock price, financial leverage, firm size and firms' performance was expected to be positive.

**Figure 2.1: Conceptual Model**




**Source:** Author (2018)

## 2.6 Summary of the Literature Review

Findings of numerous empirical studies reveal earnings management practices influence financial performance of firms. Larger part of the past studies which have researched the connection amongst management earnings and firm performance are foreign, for example; Gill, Biger, Mand and Mathur (2013) study investigated impact of earnings management profit on performance of firm in Indian Companies; Safi and Shehzadi (2015) study examined earnings management impacts on firm performance in Pakistan; Sayari, Omri, Finet and Herrathi (2013) study assessed earnings management impacts on stock return in Tunisia firms; while Moshi (2016) study assessed the earnings management effects on Tanzanian firms performance.

Further, local studies have analyzed earnings management concept ,such as, Oduma (2012) study looked at establishing the connection amongst earnings management and securities exchange returns among organizations recorded in NSE; Mboka (2014) analyzed the connection amongst corporate administration practices and EM among organizations recorded in the NSE; Mohammed (2010) researched the impact of the announcements of earnings on the prices of stocks of organizations recorded at the Nairobi Securities Exchange; and Musyoka (2015) study aimed at determining the impact that board structure has on earnings management of organizations recorded at the NSE in Kenya.

However, none of the above local studies has investigated the relationships between earnings management and reported financial performance of firm's recorded at Nairobi Securities Exchange. Study accordingly was useful to the listed companies in Kenya since they comprehended the role of earnings management practices in determining their financial performance.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research strategy adopted for earnings management effects on listed firms financial performance in Nairobi Securities exchange is presented in a systematic discussion in this chapter. Chapter presents research methodology under the following subsections; Population to be studied, the research design, data gathering, data analysis procedures.

## 3.2 Research Design

The structure of investigation and the plan developed to establish research questions answers is known as research design. This study employed descriptive research design that helped to explain the characteristic behavior of one variable because of another variable. Kothari (2005) indicates that a descriptive survey explains the relationship between variables. Descriptive research design was applied by the researcher to express the effect of earnings management on the reported financial performance of listed firms at NSE.

## 3.3 Study Population

The study populace involved all listed firms at NSE as at 31 December 2017. Currently, there are 65 listed firms at Nairobi Securities Exchange, (www.nse.co.ke). All the firms listed at the NSE were used in regard to the objective of this research. This study adopted census approach and thus all the listed firms formed the study sample frame.

### 3.4 Data Collection

Secondary data was utilized for this research. All yearly reports of listed firms in the NSE was used to obtain secondary data. Particularly, the data on earnings management (measured using discretionary accruals) was obtained from firms' income statements and stock price (measured using Variations in stock price of company *i* at time *t*.), was obtained from the statement of financial position. In addition, data on firm size (measured using total assets) was obtained from the statement of financial position. Further, data on financial leverage (measured using Debt/Equity Ratio) and firm financial performance (measured using ROA) was obtained from the financial ratios report. These data covered the period from 2013 to 2017.

### 3.5 Data Analysis

The data collected was analyzed using STATA software. The findings were presented using tables. The research used a multiple regression model to assess the correlation between earnings management and firms' reported financial performance. Below is the regression model that was applied in this study.

The following diagnostic tests were carried out; normality, multicollinearity and heteroscedasticity tests. This was done to guarantee that information suits the fundamental suppositions of established straight relapse demonstrate. Descriptive statistics was used to test normality. For multicollinearity, (VIF) was utilized and for heteroscedasticity (GLS) was utilized.

#### 3.5.1 Analytical Model

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta 2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon}$$

Where:

$Y$ = Financial Performance of firms listed at NSE to be measured using the ROA ratio.

$X_1$ = Earnings Management to be measured using discretionary accruals. The study adopted the following discretionary accruals model; but EMj= $X_1$

$$EMj = TAj/Aj - [\alpha_0 (1/Aj) + \alpha_1 ((\Delta REVj - \Delta RECj) /Aj) + \alpha_2 (PPEj/Aj)]. \ldots\ldots\ldots (1)$$

Where, TA is the total accruals; A is the start of the year total assets; ΔREV is the adjustment in net income; ΔREC is the adjustment in accounts receivables; PPE is property, plant, and equipment; j mean the firm; α0, α1 and α2 are the parameters for every factor; and EMj = Discretionary Accrual (EM). The above items was sourced from the firms' annual financial reports. This study adopted Iraya, Mwangi and Muchoki (2015) model for discretionary accruals to estimate the EM level of the firms.

To get α0, α1 and α2, a regression model was estimated where Y were actual accruals and the determinants of actual accruals to be (1/Aj), (ΔREVj -ΔRECj) /Aj) and (PPEj/Aj). The estimated accruals was derived by

$$[\alpha_0 (1/Aj) + \alpha_1 ((\Delta REVj - \Delta RECj) /Aj) + \alpha_2 (PPEj/Aj)] \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

To get the discretionary accruals, minus estimated accruals from the actual accruals:

$$EMj = Y \text{ (Actual Accruals)} - Y \text{ (Estimated Accruals)} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

$X_2$ = Stock price to be measured using variations in stock price of company *i* at time *t*.

$X_3$ = Financial Leverage to be measured using debt to equity ratio of firms.

$X_4$ = Firm Size to be estimated using log of total assets of the firms

$\epsilon$ = Error term

### 3.5.2 Test of Significance

Confirmation of hypothesis for the study utilized F-statistics to determine scope that earnings management contributes to firm performance. The model of coefficients of the explanatory constructs and the P-values was used. The tests was performed at 95% confidence level and at 5% significance level.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.0 Introduction

This chapter sections presents the data collected which was then analysed so as to achieve the study objectives. Furthermore, the descriptive as well as inferential statistics were also presented. This was done in consistent with the objectives of the study.

## 4.1 Descriptive Statistics

Descriptive of the research were carried out. This included mean, minimum and maximum. Table 4.1 represents the results.

**Table 4.1: Descriptive Statistics**

| Variable | Obs | Mean | Std.Dev | Min | Max |
|---|---|---|---|---|---|
| ROA | 325 | 0.097 | 0.134 | -0.357 | 0.565 |
| Earning Management | 325 | 25.946 | 43.025 | -126.969 | 232.115 |
| Stock Price | 325 | 290.258 | 386.927 | -319.091 | 2398.687 |
| Leverage | 324 | 0.470 | 0.257 | 0.140 | 2.543 |
| Firm Size | 325 | 4.424 | 4.043 | 0.662 | 19.574 |

**Source, Researcher (2018)**

The average ROA for the 65 listed firms at Nairobi Securities Exchange over the 5 years were 0.097164. The maximum ROA was 0.565 and the minimum was -0.357. The ROA was spread within a standard deviation of 0.134 and this indicates that there was a narrow spread of ROA from the average ROA.

The average earning management for the 65 listed firms at Nairobi Securities Exchange over the 5 years was 25.946. The maximum earning management was 232.115 and the minimum was -126.969. Earning management was spread within a standard deviation of 43.025 and this implies that there was a wide spread of earning management from the average earning management.

Furthermore, the results revealed that the mean stock price for the 65 listed firms at Nairobi Securities Exchange over the 5 years was 290.258. The maximum stock price was 2398.687 and the minimum was -126.969. Stock price was spread within a standard deviation of 386.927 and this implies that there was a wide spread of stock price from the average stock price.

The results revealed that the average leverage for the 65 listed firms at Nairobi Securities Exchange over the 5 years was 0.470. The maximum leverage was 2.543 and the minimum was 0.140. Leverage was spread within a standard deviation of 0.257 and this indicates that there was a narrow spread of leverage from the average leverage.

The results revealed that the average firm size for the 65 listed firms at Nairobi Securities Exchange over the 5 years was 4.424. The maximum firm size was 19.574 and the minimum was 0.662. Firm size was spread within a standard deviation of 4.043 and this implies that there was a narrow spread of firm size from the average firm size.

## 4.2 Diagnostic Tests

### 4.2.1 Normality

The test for normality was analyzed. This involved use of graphs as indicated in the Figure 4.1 below. The examined outcomes in the figure show the normality in distribution of residuals.

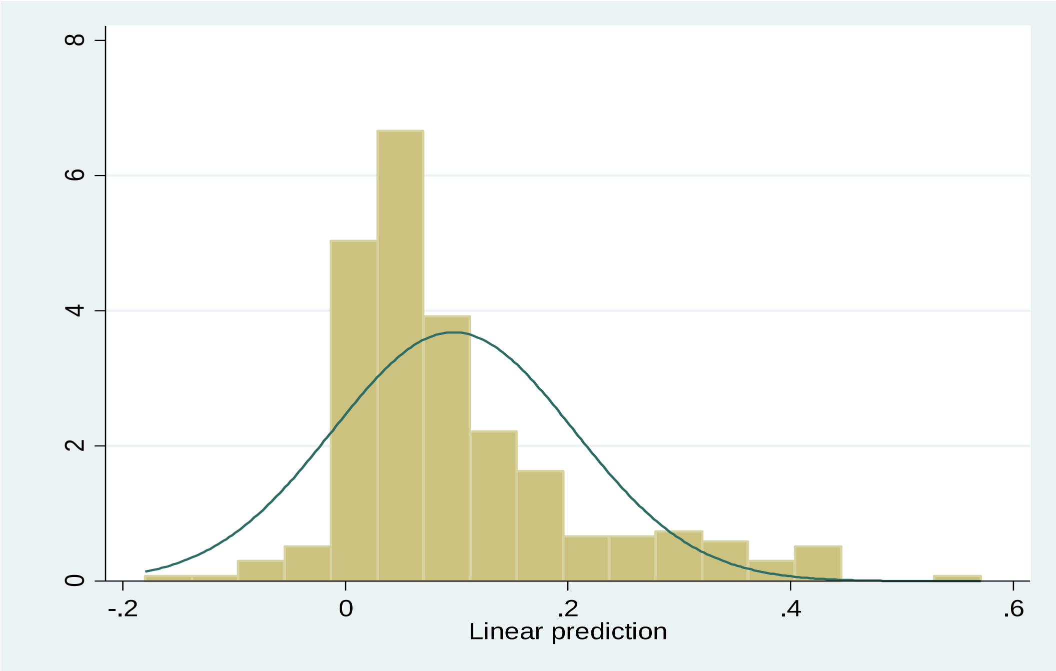



**Figure 4.1: Normality Test**

**Source, Researcher (2018)**

### 4.2.2 Multicollinearity

In this study, multicollinearity was assessed using the variance inflation factors (VIF). A VIF value which is more than 10 indicates the presence of Multicollinearity, Field (2009). The above table present results of variance inflation components which were found to be 1.21, this is less than 10. Hence according to Field (2009), this shows the absence of multicollinearity.

**Table 4.2: Multicollinearity**

| Variable | VIF | 1/VIF |
|---|---|---|
| Earning management | 1.39 | 0.72158 |
| Stock price | 1.32 | 0.76008 |
| Leverage | 1.11 | 0.89863 |
| Firm size | 1.04 | 0.96189 |
| **Mean VIF** | **1.21** | |

**Source, Researcher (2018)**

### 4.2.3 Heteroscedasticity test

Heteroscedasticity is the group wise state where by the error process is likely to be homoscedastic across the cross-sectional components; however its variance across components is likely to be different. The Breuch Pagan for group wise Heteroscedasticity in the residuals is calculated by hettest command. The null hypothesis describes that $\sigma^2_i = \sigma^2$ for i =1...Ng, where Ng is the number of cross-sectional elements. The results above in the table show that the null hypothesis of Homoscedastic error terms as supported by a p-value of 0.000 is not rejected.

**Table 4.3: Heteroscedasticity Results**

| **Modified Wald test for group wise heteroscedasticity in fixed effect regression model** |
|---|
| H0: sigma(i)^2 = sigma^2 for all i<br>chi2 (3) = 572.09<br>Prob>chi2 = 0.0000 |

**Source, Researcher (2018)**

## 4.3 Analytical Model

This section presented the correlation and regression analysis results. The correlation analysis which showed the direction of association of the variables and their level of significance was presented first.

### 4.3.1 Correlation Analysis

Correlation analysis was conducted to reveal the direction of connection of the variables. The correlation analysis outcomes are indicated in Table 4.2.

**Table 4.4: Correlation Analysis**

| Financial Performance | Financial Performance | Earnings management | Stock price | Leverage | Firm size |
|---|---|---|---|---|---|
| Financial Performance | 1.000 | | | | |
| Earnings management | 0.556 | 1.000 | | | |
| | 0.000 | | | | |
| Stock price | 0.473 | 0.137 | 1.000 | | |
| | 0.000 | 0.014 | | | |
| Leverage | 0.084 | -0.187 | 0.018 | 1.000 | |
| | 0.132 | 0.001 | 0.749 | | |
| Firm size | 0.689 | 0.267 | 0.472 | -0.0579 | 1.000 |
| | 0.000 | 0.000 | 0.000 | 0.298 | |

**Source, Researcher (2018)**

Results in table 4.2 reveal that the correlation between earnings management and financial performance is positive and notable (r=0.556, p value=0.000). This suggests that an increase in earning management is connected with an increase in financial performance and a decrease in earning management is associated with a decline in financial performance.

Results in table 4.2 reveal that the correlation between financial performance and stock price is positive and significant (r=0.473, p value=0.000). This implies that a rise in stock price is related with an increase in financial performance and a decrease in stock price is related with a decline in financial performance.

Results in table 4.2 reveal that the correlation between financial performance and leverage is positive and insignificant (r=0.084, p value=0.132). This suggests that a rise in leverage does not result to any change in financial performance.

Results in table 4.2 reveal that the correlation between financial performance and firm size is positive and significant (r=0.689, p value=0.000). This indicates that an increase in firm size is related with an increase in financial performance and a decrease in firm size is associated with a decline in financial performance.

### 4.3.2 Regression Analysis

Regression results were submitted in Table 4.5 below.

**Table 4.5: Regression Results**

| | Coef. | Std.Err | T | P>\|t\| | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| Earning management | 0.018 | 0.001 | 12.920 | 0.000 | 0.015 | 0.020 |
| Leverage | 0.014 | 0.015 | 0.950 | 0.340 | -0.015 | 0.043 |
| Stock price | 0.040 | 0.000 | 2.570 | 0.010 | 0.000 | 0.000 |
| Firm size | 0.001 | 0.000 | 13.800 | 0.000 | 0.001 | 0.001 |
| _cons | -0.033 | 0.012 | -2.710 | 0.007 | -0.056 | -0.009 |
| R Squared=73.00 | | | | | | |
| F(4,255)=788.94 | | | | | | |
| Prob>F=0000 | | | | | | |

**Source, Researcher (2018)**

The results revealed that earning management and financial performance have a positive and significant effect (β=0.018, p=0.000). The outcomes moreover indicated that leverage as well as financial performance have a positive and insignificant effect (β=0.014, p=0.340). The results further indicated that stock price and financial performance have a positive and significant effect (β=0.040, p=0.010). The results indicated that firm size and financial performance have a positive and significant effect (β=0.001, p=0.000).

The outcomes from the table 4.5 revealed that R squared was 73.00%. This implies that earning management, stock price, financial leverage and firm size explain 73.00% of the variations in the dependent variable which is financial performance. This also implies that 27.0% of the variation in the dependent variable is attributed to other variables that are not included in the model.

The F statistics results in table 4.5 show that the general model was statistically correct. This implies that independent variables are excellent forecasters of financial performance. The findings were underpinned by F statistics of 788.94 and the reported P value (0.000) and this was below the normal probability of 0.05 significance level.

## 4.4 Interpretation of Findings

The findings revealed that earning management positively and notably influence the reported financial performance of listed firms at the NSE. This means that a unit increase in earning management increases financial performance by 0.018 units. These findings agreed with that of Moshi (2016) who discovered that earnings management has a positive impact on firm's reported financial performance but nature of impact depends on the variables used for measuring earnings management.

The findings indicated that stock price positively and notably influence the reported financial performance of listed firms at the NSE. This means that a unit increase in stock price causes an increase in financial performance by 0.040 units. These findings agreed with that of Ratemo (2015) who discovered that stock prices have positive association to return on Assets (ROA).

The findings revealed that leverage positively and insignificantly influence the financial performance of listed at NSE. This means that a unit increase in leverage does not results to any change in financial performance. These discoveries were not consistent with the findings of Banafa, Muturi and Ngugi (2015) who discovered that leverage had a negative and significant effect on corporate financial performance. Raza (2013) also established a negative relation between performance and leverage.

The findings also revealed that firm size positively and significantly influence the reported financial performance of listed firms at the NSE. This means that for a unit increase in stock price increases financial performance by 0.001 units. These findings agreed with that of Njoroge (2012) who found that firm size, which is measured in total assets and also measured in total sales, both had a positive impact on the performance of manufacturing firms in Nigeria. Naran (2013) also discovered a positive relationship in the asset a proxy for the firm size as well as firm financial performance.

## CHAPTER FIVE

## SUMMARY, CONCLUSION AND RECOMENDATIONS

### 5.1 Introduction

This chapter gives the summary of the findings. In addition it gives the conclusions and the recommendations of the principle findings by considering the objectives of the study. Moreover this chapter further gives the limitations and areas of further study.

### 5.2 Summary

To determine the effect of earnings management on reported financial performance of firms listed at NSE in Kenya. The study used earnings management as the independent variable and financial performance as the dependent variable. Stock price, financial leverage and firm size were used as the control variables. The study targeted all the 65 companies listed at the NSE. This study adopted census approach and thus all the listed firms formed the study sample frame.

The descriptive results indicated that the mean of ROA was 0.097164 while the mean of earning management was 25.946. In addition, the mean of stock price was 290.258 while the mean of leverage was 0.470. The results also revealed that the mean of firm size was 4.424.

From the correlation results, correlation between earning management, stock price and firm size and financial performance was positive and significant. However, there was no correlation between financial leverage and financial performance. From regression results earning management, stock price, financial leverage and firm size explain 73.00% of the differences in the dependent variable which is financial performance. In addition, there was observed a positive and significant correlation between earning management, stock price and firm size and financial performance. However, financial leverage had a positive and insignificant effect on financial performance.

## 5.3 Conclusions

The findings disclosed that earnings management have a positive and notable effect on financial performance of firms listed at NSE. The findings concluded that earning management have a positive noteworthy impact on financial performance of firms listed at NSE. Furthermore, the findings revealed that stock price have a positive and significant effect on financial performance of firms listed at NSE. This research concluded that stock price have a positive noteworthy impact on financial performance of firms listed at NSE.

The findings of the research revealed that financial leverage have a positive and insignificant effect on financial performance of firms listed at NSE. The study concluded that financial leverage has no noteworthy impact on financial performance of firms listed at NSE. The research findings revealed that firm size have a positive and significant effect on financial performance of firms listed at NSE. The finding of the research concluded that firm size have a positive significant impact on financial performance of firms listed at NSE.

## 5.4 Recommendations for Policy and Practice

The research deduced that earning management have a positive noteworthy impact on financial performance of firms listed at NSE hence it advocates that the users of financial statements especially those who wish to make decision basing on them, should first evaluate whether the related firms engage in earnings management so that the decisions made can be correct ones.

The study made conclusions that stock price have a positive significant impact on financial performance of firms listed at NSE. The research advocates that the listed firms' management should ensure they maintain high stock prices so as to boost the financial performance of their respective firms. The study deduced that financial leverage does not have significant impact on financial performance of firms listed at NSE. The research recommends that the listed firms` management should ensure they hold adequate level of financial leverage to ensure that they do not affect other functions of the firm.

The research concluded that firm size have a positive significant impact on financial performance of firms listed at NSE. Furthermore, the research advocates that top management of listed firms should set up strategies of growth and expansion in sizes for example growth in market segments and shares. One way of achieving growth may be through mergers and acquisition where a small firm in a small industry can decide to merge with another larger firm resulting into one large firm that commands the entire large market. This will help to boost the performance of the firms.

**5.5 Limitations of Study**

There exist inherent limitations as far as the accuracy of the data is concerned. Data used was secondary in nature and the researcher does not know the manner in which it was collected and also some of the influences and various assumptions that could have been practised order to prepare and present the data.

The analytical methodology was also very scientific. The study failed to extract qualitative information that would have explained the soft and hidden issues that have an impact on the relationship between earning management and financial performance. An open ended questionnaire, an interview or a focus group discussion would have yielded qualitative information and hence collaborate this results.

The study only focused on 5 years that is from year 2013 to year 2017. May be using a longer time series would have produced different trends and outcome. The study did not also put into consideration other components that could have affected the financial performance over the tie of study.

**5.6 Areas for Further Study**

The research suggests that future research should incorporate a qualitative analysis of the correlation between earning management and financial performance of banks. Such kind of study would incorporate interviewing the key people in the firms listed at NSE and would unravel the intricate correlation between earning management and financial performance of firms listed at NSE.

More research areas should aim at a longer time period like 10 to 20 years. This would disclose if the discovered relationship fluctuates over the periods. However, this kind of studies would require use of advanced statistical analysis and econometric models that include panel data and time series analysis.

Since the R squared was not 100% it seems there are other determinants of performance that were not addressed by the study. Other studies should therefore focus on other determinants of performance that affect growth of finance institution

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## APPENDICES

# Appendix I: Secondary Data Collection Template

| YEAR | EM(Discretionary Accruals) | Stock Price (Variations in stock price of firm *i* at time *t*.) | Financial Leverage (Debt/Equity Ratio ) | Firm Size (log of Total Assets) | ROA |
|---|---|---|---|---|---|
| 2013 | | | | | |
| 2014 | | | | | |
| 2015 | | | | | |
| 2016 | | | | | |
| 2017 | | | | | |

## Appendix II: Firms listed at the NSE December 2017

| No. | Listed Firms at NSE |
|---|---|
| 1 | National Bank of Kenya Ltd |
| 2 | Sasini Ltd |
| 3 | Kakuzi Co. Ltd |
| 4 | Stanbic Holdings Plc |
| 5 | Nation Media Group Ltd |
| 6 | Housing Finance Group Ltd |
| 7 | Car & General (K) Ltd |
| 8 | Eaagads Ltd |
| 9 | Barclays bank Ltd |
| 10 | Limuru Tea Co. Ltd |
| 11 | Standard Chartered Bank Kenya Ltd |
| 12 | Williamson Tea Kenya Ltd |
| 13 | Kapchorua Tea Co Ltd |
| 14 | TPS Eastern Africa ( Serena) Ltd |
| 15 | Equity Group Holdings Ltd |
| 16 | Kenya Airways Ltd |
| 17 | I & M Holdings Ltd |
| 18 | Rea Vipingo Plantations Ltd |
| 19 | CIC Insurance Group Ltd |
| 20 | Express Kenya Ltd |
| 21 | Sameer Africa Plc |
| 22 | KCB Group Ltd |

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| 23 | Liberty Kenya Holdings Ltd |
| 24 | Standard Group Ltd |
| 25 | NIC Bank Ltd |
| 26 | Scangroup Ltd |
| 27 | Diamond Trust Bank Kenya Ltd |
| 28 | Longhorn Publishers Ltd |
| 29 | Atlas Development and Support Services |
| 30 | Bamburi cement |
| 31 | Nairobi Business Ventures Ltd |
| 32 | Kenya Power & Lighting Co Ltd |
| 33 | Deacons ( East Africa ) Plc |
| 34 | Crown Paints Kenya Ltd |
| 35 | KenolKobil Ltd |
| 36 | Kenya Re Insurance Corporation Ltd |
| 37 | E.A.Cables Ltd |
| 38 | Total Kenya Ltd |
| 39 | KenGen Ltd |
| 40 | Athi River Mining |
| 41 | Umeme Ltd |
| 42 | Jubilee Holdings Ltd |
| 43 | Sanlam kenya Plc |
| 44 | E.A.Portland Cement Co. Ltd |
| 45 | Uchumi Supermarket Ltd |
| 46 | Britam Holdings Ltd |

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| 47 | Trans-Century Ltd |
| 48 | Olympia Capital Holdings Ltd |
| 49 | Kurwitu Ventures Ltd |
| 50 | The Co-operative Bank of Kenya Ltd |
| 51 | Home Afrika Ltd |
| 52 | Centum Investment Co Ltd |
| 53 | Nairobi Securities Exchange Ltd |
| 54 | Mumias Sugar Co. Ltd |
| 55 | British American Tobacco Kenya Ltd |
| 56 | Eveready East Africa Ltd |
| 57 | East African Breweries Ltd |
| 58 | B.O.C Kenya Ltd |
| 59 | Unga Group Ltd |
| 60 | Carbacid Investments Ltd |
| 61 | Stanlib fahari I-REIT |
| 62 | Flame Tree Group Holdings Ltd |
| 63 | Kenya Orchards Ltd |
| 64 | Safaricom Plc |
| 65 | New Gold Issuer ( RP) Ltd |

Source, NSE Report (2017)