International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 10, Issue 1, pp: (260-267), Month: April 2022 - September 2022, Available at: www.researchpublish.com

RELATIONSHIP BETWEEN FIRM'S FINANCIAL ASPECTS AND FINANCIAL PERFORMANCE: A CASE OF PRIVATE SECURITY FIRMS IN KENYA

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DOI: https://doi.org/10.5281/zenodo.6624110

Published Date: 08-June-2022

Abstract: **The study investigated the effect of firm's financial aspects on the financial performance of private security firms Kenya. Further, the research employed a descriptive survey research design with a census of 75 private security firms. Both primary and secondary data was used in this study. Primary data was collected using questionnaires as the main tool for data collection. Descriptive statistics such as frequency distribution, mean, standard deviation and coefficient of variation were used to describe the basic features of the data. Simple univariate regression was applied to examine the effect of firm financial aspects on financial performance of private security firms in Kenya. The study established that firm financial aspects had a significant direct effect on private security firm performance where the p value of the t statistic of firm financial aspects was less than 0.05 and t-test was higher than 1.96, indicating that financial aspects had a significant effect on financial performance pf private security firms in Kenya (β_1= .71, t= 9.30 and p= 0.00<0.05). The study recommends that private security firms should enhance their financial aspects through increase of sales by acquiring new clients, reduction on operation costs and continuous hiring of competent external auditors for financial advice.**

Keywords: **Firm's Financial Aspects, Financial Performance, Private security.**

1. INTRODUCTION

At least half of the world's population lives in countries where there are more private security workers than public police officers, according to a new Guardian analysis. More than 40 countries including the US, China, Canada, Australia and the UK – have more workers hired to protect specific people, places and things than police officers with a mandate to protect the public at large, according to the data. In Britain, 232,000 private guards were employed in 2015, compared with 151,000 police (Guardian 2017). The global market for private security services, which include private guarding, surveillance and armed transport, is now worth an estimated $180bn (£140bn), and is projected to grow to $240bn by 2020. This far outweighs the total international aid budget to end global poverty ($140bn a year) – and the GDPs of more than 100 countries, including Hungary and Morocco. Around the world, private security guards patrol shopping malls, elite gated communities and some public streets. They often wear uniforms that resemble police clothing and in some countries, including Spain and Italy, private guards carry handguns as well (Guardian 2017).

Africa remains a turbulent environment and is perceived as a continent in continuous conflict, although there are countries and regions where instability is absent' (Stead, 2006). Any explanation of the situation in Africa (whether during peace or war) should be put into perspective while taking into account a number of issues; in other words, African challenges must always be viewed in context rather than in isolation. The private security industry, which is broadly divided into private security companies (PSCs) and private military companies (PMCs), operates in both stable and unstable environments in Africa. The growth of the private security industry in Africa can be ascribed to a number of reasons, and that being the case, any approach to the challenges brought about by PSCs/PMCs must be informed by an understanding of the industry's growth and of the environment within which it operates.

In Kenya the private security industry first emerged in the 1960s on larger industrial sites. Growing commercial demand, and rising crime rates, meant the industry grew steadily during the 1990s. After the Westgate mall terror attack in September 2013, when 67 people were killed, it experienced an exponential boom. Security guards and police officers have different rules that apply to them when it comes to carrying firearms. Private security officers are not allowed to possess a firearm while on duty. Police officers are compelled to. This has given rise to partnerships, over the past 20 years, between private security companies and police units. There is a lot of diversity in how these work. Some of the partnerships are formalized, while some are informal. Some involve a few police officers or a unit, some the entire station. The private security companies defined themselves as auxiliary to the state police. They saw themselves as playing a supportive role by acting as the state police's "eyes, ears, and wheels": they provided the police with information and gave them crucial resources – like transport – that they sometimes didn't have.

1.1 Statement of the Problem

The growth in private security industry has herald concerns among researchers and practitioners on factors affecting financial performance of private security firms globally and locally in Kenya. A key factors affecting financial performance of firms in literature is firm's financial aspects. The relationship between firm financial aspects and financial performance has tended to be positive in most studies (Mensah, 2015; Tarus, Muturi & Kwasira, 2015). However, most of the studies have been domiciled in other sectors with few studies being carried out in private security industry. The current study sought to assess the effect of firm's financial aspects on financial performance of private security firms in Kenya.

1.2 Objective of the study

To assess the effect of firm's financial aspects on financial performance of private security firms in Kenya.

1.3 Hypothesis

H_0**:** There is no statistically significant effect of firm's financial aspects on financial performance of private security firms in Kenya.

2. LITERATURE REVIEW

2.1 Theoretical Review

Miller- Orr Model

The Miller- Orr model was developed by Miller and Orr (1966) to study cash management. The model was an improvement of BAUMOL'S Economic Order Quantity model. The model was developed to handle challenges of fluctuation in cash inflows and outflows. Firms were facing the challenge of either holding too match cash or too little cash. The model is based on the assumptions that daily cash needs is normally distributed and the level of cash balance in a business could be some lower or higher value. The model proposes that upper (U) and lower (L) cash control limits can be set. The model also proposes that target cash balance be set such that target cash balance lies between Upper and lower limits of cash balances. The model explains that the firms should allow its cash balances to oscillate between upper and lower limits and that the firm should not do any interventions about cash as long as the cash balance is between upper and lower limit (Nyamweya & Obuya, 2020).

The theory explains further that when cash balance reaches upper limit, the firm should use the excess cash beyond targeted cash balance (U-Z) to purchase marketable securities. The intervention leads to cash balance falling back to targeted level (Z). Consequently, when cash balance reaches the lower limit (L), the firm should dispose of some marketable securities (Z-L) and convert them into cash. The intervention should increase cash balance up to targeted level of cash (Z). The process of purchasing marketable securities when cash balance reaches upper limit and selling marketable securities when cash level reaches lower limit is associated with transactional costs. The opportunity cost of holding cash is the benefits foregone if the cash were invested in interest bearing securities (Olang, Akenga & Mwangi, 2015).

The model is relevant on the association between firm financial aspects and financial performance of private security firms in Kenya. The model is specifically useful in explaining the relationship between the financial aspect indicator; cash flows. The model explains the level of cash and marketable securities held by private security firms in Kenya. The cash balances held by the firms could depend on transactional cost of purchasing or buying marketable securities, the opportunity cost of holding cash and the distribution of daily cash balances from the mean cash balances of the firm. Firms with inadequate cash balances should either convert non cash assets into cash or borrow to seal gaps in cash imbalances.

2.2 Empirical Review

A study by Afrifa (2016) examined the association between cash flows and firm performance. He suggested that the firms with sufficient cash flows should invest in working capital, while less cash flow firms should invest less to reach the performance level. Ikechukwu et al. (2015) studied the impact of operating cash flows on the banks' profitability. They found a positive association between operating cash flows and the profitability of the banking sector in Nigeria.

Nguyen and Nguyen (2020) examined the effect of cash flow statements on commercial banks' lending decisions. They reported that the statement of cash flow plays a significant role in the lending decisions of banks. Augustine and Jacob (2017) examined the impact of Cash flow from Operating activities (CFOs) on the performance of Nigerian companies. The study reported that variables such as cash conversion, cash deposits are positively associated with return on assets while cash flow and firm size are negatively related. Ogbeide and Akanji (2017) studied the effect of CFOs on Nigerian insurance companies' financial performance. The findings reveal that the cash flow determines a significant role in determining the insurance sector's financial performance. They noted that frequent cash out flow in the insurance sector makes cash flow negative and causes a financial crisis.

Jennifer Martinez-Ferrero (2014) studied consequences of financial reporting quality on corporate performance. The proposed hypotheses was tested on an unbalanced sample of 1, 960 international non-financial listed companies from 25 countries and the special administrative region of Hong-Kong for the period 2002-2010. The use of simultaneous equations for panel data, via the GMM estimator proposed by Arellano and Bond (1991), highlighted the positive effect of financial reporting quality on Financial Performance. The results showed that companies which report financial statements with better quality information (associated to better earnings quality, accounting conservatism and better accruals quality) enjoy a higher Financial performance, measured by market measures which reflect the trust that stakeholders have not only in the company at present, but also in the past and future.

An investigation on the determinants of quality of financial statements among listed commercial banks in Nakuru was carried out by Tarus, Muturi and Kwasira (2015). The study was hinged on positive accounting theory, agency theory, stakeholder's theory and signaling theory. Descriptive research design was adopted and 164 respondents were drawn using simple random sampling from employees working in commercial banks. Results of study revealed significant relationship between computerized accounting, professional development and internal skills development within commercial banks and quality of financial reporting. From the findings it was recommended that there is need for continuous skills development through seminars and workshops. It would have been appropriate for the study to draw a sample from more banks rather than those which are listed.

An investigation of the quality accounting determinants in European Union on quality financial reporting was carried out by Paiva and Lauranco (2010). In the study it was hypothesized that there were chances of earnings management and other financial performance indicators if the companies adopted quality financial reporting. Panel secondary data was retrieved from financial statements of companies listed in period ranging from 2006 to 2008. Multiple regression analysis was fitted on audit quality, a dummy variable on whether a company was audited by big four or not, firm size, disclosure level, earnings level, turnover, growth, cash flows and leverage. Past accounting information and firm size, audit size, disclosure level, cash flows and growth was considered. In contrast, a significant and positive relationship between absolute discretionary accrual and leverage, earnings issue and sales turnover was found. It would have been appropriate to adopt panel research design and carry out panel diagnostic test prior to fitting the regression model.

A Ghanaian case on the determinants of quality of financial reporting was carried out by Mensah (2015). The study concluded that financial reporting quality was influenced by independent directorship, ownership concentration, firm size, profitability, liquidity and leverage. Cross sectional data was collected from audited annual financial statements for the year 2012. Results of the study revealed that the average voluntary disclosure was 63%. Multiple regression analysis revealed significant relationship between leverage, shareholder's concentration, board ownership and independent directorship and quality of financial reporting.

2.3. Conceptual framework

The independent variable conceptualized having influence on the financial performance of private security firms was firm financial aspects. Dependent variable (Financial performance) is measured by ROE while independent variable is measured by indicators including Cash flows and Quality of audited financial statements. Cash flow measures to the movement of money into and out of private security firms. Cash flow affects the company's ability to grow. Quality financial statements means fair presentation of financial statements that reflects transparency in the financial position. Cash flows and revenue projections of the firms assists the lending parties to make informed decisions on whether to extend finance. The study expected positive effect of financial aspects on financial performance. The relationship between the independent and dependent variable is represented by figure 2.1

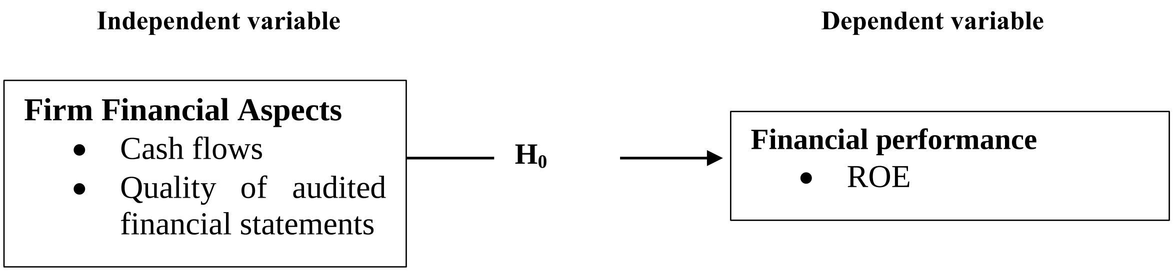

Figure 2.1: Conceptual Framework

It is envisaged that firms' financial aspects have some effects either positive or negative on financial performance of private security firms. Health cash flows and audited financial statement of private security firms will improve the financial performance of security private firms and vice versa.

3. METHODOLOGY

The study utilized a descriptive survey design with the aim of achieving the objectives of the study. The target population comprised 75 private security firms registered by PSIA (PSIA 2020). The study applied a census survey because the number of private security firms registered under PISA were few. Sample size was 75 same as population purposively selected from top management of each private security firm. This was considered appropriate because the responses required by the researcher could only be perfectly provided by top management staff. Primary data was collected by the use of structured questionnaires with closed-ended questions being administered to the respective staff. A questionnaire was issued to each firm to be filled by a top management staff; either the CEO, General Manager or operations manager. Interview of each private security firm was administered by a pre-set interview guide to make sure that same questions were asked. Secondary data was gathered from the financial statements of the private security firms for the 3 years 2018, 2019 and 2020 where Firm's Equity and Net Profit Before Tax results were recorded for analysis. Descriptive statistics statistical procedures were used to describe the population in terms of mean, standard deviation. The inferential statistics involved correlation and regression analysis. Analysis was aided by SPSS version 25 and Microsoft excel. Inferential statistics were derived using Karl Pearson correlation coefficients and regression analysis. Correlation analysis enabled the establishment of the association between explanatory and dependent variable. Regression coefficients were estimated to determine the influence of each independent variable on the dependent. Univariate regression model $Y_i = \beta 0 + \beta_1 X_i + \varepsilon$ was adopted in the analysis. Where, Y is Financial Performance proxy (ROE) (Dependent Variables), X = firm's financial aspects, i= cross sectional units, $\boldsymbol{\varepsilon}$ = error term, β_0= Intercept term, $\beta 1$= coefficients of explanatory variable.

4. RESULTS AND DISCUSSION

A total of 75 managers of security companies were targeted in this study. However, 3 private security firms were used for piloting thus the actual population for the actual study stood at 72 private security firms. Though all of the 72 firms were given the research questionnaire, 71 respondents successfully completed and returned the questionnaires. This gives a response rate of 98.6 percent. The study adopted internal consistency test of Cronbach alpha to examine the reliability of the instruments adopted and all values where greater than 0.7 indicating that the construct was reliable.

4.1 Descriptive Analysis of financial aspects

The study also examined the mean, standard deviation and coefficient of variation regarding statements about financial aspects of the security firms in Kenya. The findings are presented in Table 4.1.

Table 4.1: Firms Financial Aspects

Statements on Firms Financial Aspects	N	Mean	SD	CV
The firm has a competent accountant who oversees the accounts department.	71	4.83	0.47	0.09
There is return on investment of company finances.	71	4.80	0.57	0.11
The firm keeps Proper financial statements	71	4.70	0.66	0.14
The firm can comfortably meets it current financial obligation	71	4.53	0.58	0.12
The cash flow are well projected for the firms activities	71	4.43	0.87	0.19
The financial statements are audited by an external auditor.	71	4.07	0.54	0.13
Aggregate Mean Score		**4.56**	**0.61**	**0.13**

The findings presented in Table 4.1 reveals the evaluation of the respondents on the statements about firm's financial aspects. The responses on the statements have been ordered in descending order from the most supported to the least supported based on mean. The most supported statement was that the firm has a competent accountant who oversees the accounts department as evidenced by mean score (M = 4.83) tending to strong agreement with standard deviation (SD= 0.4776) showing individual responses spread around the mean by about 0.47. The coefficient of variation (CV = 0.0988) showed that the individual responses spread around the mean by 9.8%. The finding implies that most firms studied were comfortably meeting their current financial obligations. The results were in line with the study done by Zhao, et.al (2015) that suppliers and franchisers (buyers) involved in the long term transactions with a firm will also consider its accounting performances when evaluating the possibility that the firm might experience financial distress and no longer perform their implicit contracts. In many cases, owners or managers of SMEs are found to take their business and strategic decisions based on their own perception or guess as they usually do not have quality accounting information. The least supported statement was the financial statements are audited by an external auditor evidenced by mean score (M= 4.0704) tending to agreement. The finding implies that majority of private security firms in Kenya were getting their books of accounts audited by qualified external auditors. The standard deviation (SD= 0.5431) revealed that individual responses were spread around the mean by 0.54 units and the coefficient of variation (CV= 0. 0.1334) showed that individual responses were spread around the mean by 13.3%. The findings agree with Nanyondo (2014) who revealed that quality of financial statements has a significant positive association with access to finance. Tweedie (2010) stated that for SMEs to access finance from banks, quality of financial statement is paramount. The overall means score on all statements showed that firm's financial aspects were critical for security firms operating in Kenya. The aggregate mean score (M= 4.563) tended to strong agreement implying that firm's financial aspects were important for performance of private security firms in Kenya.

4.2 Descriptive Analysis of Financial Performance

The study also examined the mean, standard deviation and coefficient of variation regarding statements about financial aspects of the private security firms in Kenya. The findings are presented in Table 4.2.

Table 4.2: Financial Performance

Variable	Descriptive Statistics	2020	2019	2018
Total Equity	Mean	23,632,795	18,476,040	14,210,008
	Standard Deviation	5,908,198	5,542,812	2,984,101
Net Profit Before Tax	Mean	8,513,072	7,283,518	6,651,537
	Standard Deviation	1,532,352	1,092,527	1,130,761
ROE	Mean	0.36	0.39	0.46
	Standard Deviation	0.05	0.07	0.11

Table 4.2 presents the mean and standard deviation of the total equity, net profit before tax and ROE for 2020, 2019 and 2018. The mean for equity was Ksh. 23,632,795, Ksh. 18,476,040 and Ksh. 14,210,008 for 2020, 2019 and 2018 respectively. The mean shows a rising figure from 2018 to 2020 implying the net worth of the private security industry has been improving over time. The standard deviation for total equity was Ksh. 5,908,198, Ksh. 5,542,812 and Ksh.

2,984,101 in 2020,2019 and 2018 respectively. The standard deviation was wide depicting the difference between the firms with small and large equity. The mean for Net profit before tax was Ksh.8, 513,072, Ksh. 7,283,518 and Ksh. 6,651,537 in 2020, 2019 and 2018 respectively. The figure for mean has also been increasing from 2018 to 2020 implying improving profitability of private security industry. The standard deviation for Net profit before tax was Ksh. 1,532,352, Ksh.1, 092,527 and Ksh. 1,130,761 in 2020, 2019 and 2018 respectively. The standard deviation figure reveals the spread of individual private security firm profitability from the mean profitability. Finally, the mean for return on equity (ROE) was 0.36, 0.39 and 0.46 in 2020, 2019 and 2018 respectively. The return on equity has shown falling trend from 2018 to 2020 implying that net profit has been rising at slower rate compared to total equity. The standard deviation for ROE was 0.05, 0.07 and 0.11 in 2020, 2019 and 2018 respectively.

4.3 Regression Analysis

The study examined the effect of firm financial aspects on firm performance. The study adopted univariate regression model to establish the effect of firm financial aspects on financial performance among private security firms in Kenya as presented in Table 4.3.

Table 4.3: Effect of Firm's Financial Aspects on Financial Performance

Model Summary						
Model	R	R Square	Ad R^2			Std. Er of Estimate
	.74[a]	.55	.55			.24
ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.15	1	5.15	86.51	.00[b]
	Residual	4.11	69	.06		
	Total	9.26	70			
Regression Coefficients						
		Unstandardized Coefficients		Std. Coefficients		
Model		B	Std. Er.	Beta	t	Sig.
	(Constant)	-3.00	.33		-9.05	.00
	Financial Aspects	.71	.07	.74	9.30	.00

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Financial Aspects

Table 4.3 presents a summary of regression model results. The value of R is 0.74 revealing that there is a direct linear relationship between firm financial aspects and financial performance. The coefficient of determination (R^2) indicates that firm financial aspects explains 55% of the total variation financial performance. Therefore, 44% of the remaining financial performance is explained by other factors not considered by this study. The finding implies that better financial aspects of the firm leads to improved financial performance of private security firm. Further, Table 4.3 presents the findings of the Analysis of Variance ANOVA on the variables firm financial aspects and performance. The study establishes that financial aspects of the firm has significant effect on the firm performance. This was evidenced by P value = 0.00 which was less than 5% level of significance (p-value = 0.00< 0.05) and F calculated higher than F-critical (86.51 > 4.00). The significant effect implied model had a good fit for the purpose of estimating the parameter of firm financial aspects in explaining financial performance. The research also generated the beta coefficients of firm financial aspects. Table 4. 3 revealed that the coefficient of firm financial aspect was 0.71 meaning that firm financial aspects had a significant positive effect on financial performance of private security firms in Kenya. Further, for every one-unit increase in the measure of firm financial aspects, financial performance improves by 0.71 units. Given that the p value of the t statistic of firm financial aspects was less than 0.05 and t-test was higher than 1.96, it implied that financial aspects had a significant effect on financial performance of private security firms in Kenya (β_1= .71, t= 9.30 and p= 0.00<0.05). The study rejected the null hypothesis that there is no statistically significant effect of firm's financial aspects on financial performance of private security firms in Kenya. The model was thus fitted as: $Y = -3.003 + .717X_i$. The findings are in agreement with Nguyen and Nguyen (2020) who examined the effect of cash flow statements on commercial banks' lending decisions. They reported that the statement of cash flow plays a significant role in the lending decisions of banks.

Augustine and Jacob (2017) examined the impact of CFOs on the performance of Nigerian companies. They reported that variables such as cash conversion, cash deposits are positively associated with return on assets while cash flow and firm size are negatively related. Also the study is in line with Ogbeide and Akanji (2017) who investigated the effect of CFOs on Nigerian insurance companies' financial performance. The findings revealed that the cash flow plays a significant role in determining the insurance sector's financial performance. Mensah (2015) examined the determinants of quality of financial reporting. The study revealed a significant relationship between leverage, shareholder's concentration, board ownership and independent directorship and quality of financial reporting.

5. CONCLUSION

The study objective was to determine the effect of firm's financial aspects on performance of private security firms in Kenya. The study established that firms' financial aspects had a positive and major effect on financial performance of private security firms in Kenya. The study thus concluded that that financial aspects such as employing competent accountant, having financial statements audited among Kenyan private security firms have a strong contribution to financial performance. Firms that have employed qualified accountant have high quality financial statements making it possible to correctly measure financial performance. Additionally, firms with better cash flows are able to meet their obligations as they fall due hence improved relationship with suppliers. Firms with better books of accounts can also easily access external funding for the business hence improved financial performance.

6. RECOMMENDATIONS

The study recommends that management of private security firms in the country should keep proper financial statements and employ competent accountants to help track progress of the enterprise. The firms should also have their books of accounts audited by competent external auditor. These would improve the quality of internal systems and encourage believability in the financial records among financiers. The management of private security firms also ought to ensure that their return on investment are high enough. Increasing liquidity, proper cash usage and quality financial reporting can increase financial stability among private security firms. Supportive financial aspects such competent accountant, audited financial statements, meeting obligations would eventually lead to increased performance of private security firms in Kenya.

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