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EFFECT OF BOARD DIVERSITY, FIRM PROFITABILITY, AND INTERNAL CONTROLS ON FINANCIAL REPORTING QUALITY OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

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Abstract

This paper established the joint effect of board diversity, firm profitability, and internal controls on the Financial Reporting Quality (FRQ) of the companies listed at the Nairobi Securities Exchange (NSE) in Kenya. The agency theory, Upper Echelons Theory (UET), and Resource Dependence Theory (RDT) informed the paper to elucidate the relations between the independent and dependent variables. This paper employed a multi-method quantitative research design and a deductive research methodology. The population comprised of 61 NSE-listed companies. Ultimately, 305 firm-year data of 61 firms listed in NSE between 2014 and 2018 were analyzed. Panel data was analyzed using the fixed effects model and the Hausman test found it consistent. The findings revealed that board diversity, firm profitability, and internal controls jointly significantly predict the FRQ of NSE-listed enterprises in Kenya. Additionally, the study revealed that FRQ is significantly predicted by the average age of directors ($\beta = 0.856$, $p<0.05$), board gender ($\beta =1.201$, $p <0.05$), and board independence ($\beta = -1.685$, $p < 0.05$) but insignificantly predicted by the foreign board members ($\beta = 0.330$, $p>0.05$), board qualification ($\beta = 0.861$, $p>0.05$), firm profitability ($\beta= - 0.058$, $p > 0.05$), and internal controls ($\beta = 0.041$, $p > 0.05$). Moreover, board independence negatively relates to FRQ. The paper recommends the need for NSE-listed firms to consider people with more experience and gender diversity while limiting the number of independent board members when constituting boards to improve the quality of financial reports.

Keywords: *Board Diversity, Firm Profitability, Internal Controls, Financial Reporting Quality, Nairobi Securities Exchange Listed Companies.*

Introduction

Corporate scandals associated with accounting and the fall of corporate giants like WorldCom and Enron in the United States (US), Parmalat in Italy, Lernout and Hauspie in Belgium, Cadbury, NAMPAK, and Afribank in Nigeria, which were considered pacesetters for company results, has undermined the financial information/data reliability of investors (Cao, Li & Zeng, 2016). Several of these corporate giants collapsed as a result of financial reporting errors such as fraudulent operations and weak management systems imposed by the board of directors (Shen & Hsiang-lin, 2007; Bello, 2010). Consequently, this has sparked a global movement to implement corporate governance dynamics to combat opportunistic arrangements. In response to the scandals, regulators advocate for board diversity to improve FRQ. This is founded on the premise that heterogeneous groups are likely to self-check each other. A board ensures credible financial reports that comply with International Financial Reporting Standards (IFRS) and strict internal controls adherence. This reduces fraud and raises the quality of financial statements and reports (Xie, Davidson & DaDalt, 2003).

Additionally, to assure quality accomplishment of company objectives, including FRQ, the Sarbanes Oxley (SOX) Act of 2002 (internal control reform) requires management and auditors to express an opinion on the efficacy of internal controls. According to studies, the SOX Act has enhanced operational efficiency and reporting quality (D'Mello, Gao, & Jia, 2017; Feng, McVay, & Skaife, 2015). Prior research has linked quality internal controls to quality financial data (Altamuro & Beatty, 2010; Doyle &McVary, 2007). Likewise, literature has revealed that firm profitability impacts on quality of financial disclosure (Almed, Billings, Morton & Stanford-Harris, 2002; Kamaluarifin, 2016).

Board diversity refers to the board's makeup regarding age, education, gender, ethnicity, experience, lifestyle, culture, nationality, religion, and other factors that distinguish us as people (Jhunjhunwala & Mishra, 2012). While according to Van der Walt and Ingley (2013), board diversity is concerned with a variation in the makeup of the board of directors. In this way, the diversity is both demographic and cognitive. Demographic diversity refers to directors' easily detectable attributes like race, ethnicity, age, nationality, and sex. On the other hand, cognitive diversity is related to directors' less obvious or unobservable traits, such as their academic, operational, and professional backgrounds, work experience, and affiliation with organizations (Firoozi, Magnan, & Fortin, 2016). However, it is worth noting that the expense of a diversified board is significant, since this may restrict the organization's performance (Wang, 2015), and this may also impair the quality of its financial reporting.

Board diversity and the FRQ are significantly correlated, according to studies by Makhlouf, Al-Surf, and Almubaideen (2018), Ho, Li, Tam, and Zhang (2015), Klai and Omori (2011), Barua, Davidson, Rama, and Thiruvadi (2010), and Yunos (2011). A significant and negative link among board diversity and FRQ was identified in other research (Labelle, Gargouri, and Francoeur, 2010; Dobbin and Jung, 2010).

Reshid (2015) defines profitability as an investment's ability to earn a return from its uses. Financial management's critical goals include profitability and commonly, a firm examines its performance by measuring its profitability. Abate and Yuvaraj (2013) explain that profitability ratios assess a firm's potential to earn revenue relative to its expenditures over a specific period.

In studies like Hassan and Farouk's (2014), profitability was highlighted as a crucial business level attribute that influences FRQ of firms in Nigeria. While Alsaeed (2006) and Nelson and George (2013) found no evidence of a significant relationship between profitability and earnings quality, other authors, including Almed et al. (2002) and Kamaluarifin (2016), contended that there were two possible explanations for the relationship between profitability and disclosure quality. The first is that management of highly successful businesses tends to reveal more information to demonstrate their continued performance to obtain remuneration arrangements and maintain their job. In other words, a rise in profitability reduces earnings management and leads to more accurate financial statements. Less successful businesses, on the other hand, tend to be more transparent in their information disclosure to defend their actions and uphold their credibility.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013) defines internal control as "a generic process that comprises all the procedures and tasks required to ensure the attainment of objectives relating to reporting, operations, and compliance." In other words, effective internal control reasonably ensures reliable financial reporting. A sound internal control system can lessen the risk of random procedural and estimation errors and the intentional manipulation of reporting (COSO, 1992).

In order to restore investors' faith in the financial statements of listed firms, the US government created the SOX Act in 2002 following a number of high-profile financial and accounting scandals (including the failure of Enron and the accounting firm Arthur Andersen LLP). In order to strengthen internal controls of businesses and guarantee the accomplishment of their objectives, including FRQ, the SOX Act (2002) mandates that management and auditors provide an opinion on the effectiveness of internal control systems. All listed businesses must have suitable internal controls, per the Capital Markets Authority's (CMA) mandate.

Efficient internal controls help firms stop fraud, errors, and minimize wastage, according to Mawanda (2008). In addition, Bongani (2013) strongly affirmed that efficient internal control systems act as the first line of protection in securing money, avoiding and even helping to detect fraudulent activities. McMullen, Raghunandan, and Rama (1996) demonstrated that the disclosure of internal control components is positively related to quality financial reporting.

The FRQ has remained a prominent concern among practitioners, regulators, and other users of financial information as it is the primary means of conveying financial performance to stakeholders. However, researchers, practitioners, and regulators are not in agreement on a precise definition of FRQ (Pomeroy & Thomton, 2008). The Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Accounting Standards Board (ASB) in the United Kingdom, and the Australia Accounting Standards Board (AASB) all define FRQ as financial statements that deliver true and fair information about an entity's underlying financial position and economic performance. FRQ is described by Martinez-Ferrero (2014) as the accuracy of the information as it appears in the financial reporting process. The IASB (2008) in its conceptual framework defines FRQ as that which meets the objectives and qualitative characteristics of financial reporting. Financial reports' accuracy in conveying information about the company's business in compliance with accounting standards, or even to the extent that accurately presented financial statements reflect the reporting company's core operations and financial position, is called the quality of financial reporting (Biddle, Hillary & Verdi, 2009; Nasser & Nuseibeh, 2003; Robinson & Munter, 2004).

The IFRS compliance, earnings persistence, quality of disclosure, audit fees charged, auditor type, earnings management, qualitative characteristics, timeliness, and value relevance have all been used to evaluate FRQ. Although accrual-based metrics do not include non-financial information and exclusively employ financial information (Biddle et al., 2009); Van Tendeloo & Vanstraelen, 2005), the studies reviewed mainly applied accrual-based measures resulting in inconclusive findings; the current paper applied IFRS Disclosure (IFRSD), qualitative characteristics and auditor type to validate FRQ findings in NSE-listed firms.

Nairobi Securities Exchange Listed Firms

The NSE was established in 1954 as Kenya's sole primary stock exchange, providing an online platform for the listing and trading of various securities. The companies listed on the NSE are classified into different categories according to the activities and operations they engage in, including, among others, the agricultural, commercial and services, banking, insurance, investment, manufacturing, construction, and allied sectors.

The NSE is regulated by Capital Market Authority (CMA) and is authorized to manage the affairs of its associated firms. As of December 31, 2018, NSE had 66 listed companies, and a listed firm’s securities may be suspended or delisted according to NSE listing rules 2014 if the rules and procedures are not followed. The use of NSE is justified because it serves as the country's economic barometer and adheres to minimal corporate governance rules (CMA, 2015; NSE, 2016).

Research Problem

Financial statements are important tools that users need to make sound economic decisions. As a result, it is crucial that the information provided is double-checked and is meaningfully efficient, realistic, and reliable. Nonetheless, regulators, investors, market participants, and academics have expressed concerns about the quality of corporate financial reporting following the failures of companies such as WorldCom and Enron in the US, Lernout and Hauspie in Belgium, Parmalat in Italy, Cadbury, NAMPAK, and Afribank in Nigeria (Adeyemi, Okpala & Dabor, 2012). The collapse of Eurobank in 2004 and the discovery of hidden offshore bank accounts used by some directors to steal company funds at Cooper Motor Corporation (CMC) motors, as well as the manipulation of books of accounts at Uchumi Supermarkets, are few examples of corporate scandals in Kenya (Iraya, Mwangi, & Muchoki, 2015; Herbling, 2016). Accordingly, some have questioned the board's ability to oversee financial reporting and overall company management.

Consequently, the effect of board diversity on FRQ has attracted scholars across the globe. An analysis of the available literature reveals that, rather than FRQ, most experts have concentrated on board diversity's impact on enterprises' financial performance. For instance, Vafaei, Ahmed, and Mather (2015), using a large sample of the top 500 listed firms in Australia from 2005 to 2011, investigated the relationship between board gender diversity and financial performance. The findings demonstrate a favorable correlation between board diversity and financial performance.

According to Firoozi et al. (2016), Canadian companies' financial reporting quality was affected by the diversity of their boards. As a result of the study's findings, firms' financial reporting quality is significantly influenced by board diversity. This study was carried out in Canada which presents totally different economic circumstances hence limiting the application of its findings for this study. The impact of board attributes on the FRQ of manufacturing listed enterprises in Nigeria was studied by Aifua and Embele (2019). Results of the study may fail to apply in the current study due to the fact that it was carried out in Nigeria. Mwangi (2017) studied how the audit committee's features impacted the FRQ of Kenya's non-profit state-owned enterprises. The study focused on state-owned corporations; hence, the current paper seeks to fill the gap by focusing on firms listed in NSE.

However, it is evident from the reviewed studies that none have examined the impact of all specified characteristics of board diversity on FRQ among Kenyan companies listed on the NSE. Additionally, none of the research looked at the joint effect of internal controls, board diversity, and firm profitability on FRQ. This presents a gap in knowledge that this paper intends to bridge on the joint effect of board diversity, firm profitability, and internal controls on FRQ of firms listed in NSE. In this regard, therefore, this paper sought to answer the question; what is the joint effect of board diversity, firm profitability, and internal controls on FRQ of NSE-listed firms Kenya?

Study Objective

The study’s goal was to determine the joint effect of board diversity, firm profitability, and internal controls on FRQ of NSE-listed firms in Kenya.

Study Hypothesis

The following hypothesis was tested:

H0: There is no significant joint effect of board diversity, firm profitability, and internal controls on FRQ of NSE-Listed companies in Kenya.

Literature Review

This paper was informed by agency theory (Jensen & Mackling, 1976), UET (Hambrick & Manson, 1984), and RDT (Pfeffer & Salancik, 1978). Jensen and Meckling (1976) developed the concept of agency theory. The separation of ownership and the link between principals and agents serve as the theoretical cornerstones. It is predicated on short-term gains, with principals giving their agents decision-making authority and instructing them to use the resources provided by the principals to increase the benefits to the principals. According to agency theory (Jensen & Meckling, 1976), the manager and shareholders are the agents and principals, who have a conflict of interest. Heterogeneous boards may act as a mitigating factor. Additionally, businesses with diverse boards make it easier to share pertinent information, which promotes monitoring, reduces agency problems, and increases transparency, reducing information asymmetry (Adams & Ferreira, 2009; Srinidhi, Gul & Ng, 2011; Khan, Bin & Sadia 2021; Upadhyay & Zeng, 2014; Chung, & Zhang, 2010). According to Carter, D'Souza, Simkins, and Simpson's (2003) research, having more women on boards improves managerial oversight, reduces opportunistic tendencies, and boosts the boards' independence (Terjesen, Couto, & Francisco, 2016). As a result, increased board autonomy and better monitoring could result in higher-quality financial reporting (Abad, Lucas-Pérez, Minguez-Vera, & Yagüe, 2017).

The UET suggests that the managerial background features partly predict organizational results, strategic decisions, and performance levels (Hambrick & Mason, 1984). This theory further asserts that organizational results such as strategic decisions and levels of performance are a function of management features. It offers a structure under which executives examine how organizational results are influenced. Hambrick and Mason (1984) also suggest that the routes to organizational results represent the organization's values and cognitive bases of top executives. According to the firm's behavioral theory (Cyert & March, 1963), top managers ' experiences, backgrounds, and features shape their cognitive views and differences in strategic decision-making impacts. As executives start to experience information overload and conflicting goals, they use their current cognitive systems to effectively organize information and simplify their decision-making processes, according to the upper echelons view (Shaw, 1990). The cognitive base of managers, therefore affects the decision-making process by vision guiding, perception filtering and lastly information interpretation leading to quality financial reporting (Hambrick, 2008; Hambrick & Mason, 1984).

The UET is primarily a theory of information processing, with managers acting based on the situations they face and also based on their filtered perceptions. Consequently, board characteristics connected with their ability to process information are anticipated to play a significant part in a company's strategic results (Dollinger, 1984). Therefore, if individual features have a bearing on organizational outcomes, it is realistic to think that there is an enhanced need to investigate the features of the boards on the execution of the policy and the effect on the quality of organizational performance including FRQ.

Pfeffer and Salancik (1978) proposed RDT and position that organizations cannot produce all the resources or services necessary to manage themselves internally and thus must establish relationships with external entities to acquire the resources and services needed. The RDT was used to explain the association between board diversity and FRQ in listed firms on NSE in this paper. The theory focuses on the board's function in providing the organization with access to resources such as information and expertise through linkages to external organizations (Pfeffer & Salancik, 1978). Board of directors’ traits tend to be of paramount importance as resource suppliers (Abdullah & Valentine, 2009; Ezelibe, Nwosu, & Orazulike, 2017). Size, independence, expertise, gender, nationality, and age are just a few of their attributes. These board attributes are thought to improve the quality of financial reports in a company, which will, in turn, improve the stakeholders' trust in the organization.

Empirical Review

Mwangi, Oluoch, Muturi, and Florence (2017) looked into how the audit committee's diversity affected the quality of state-owned financial reporting. The sample size for the study, which had a descriptive research methodology, was 72 government companies. A census poll of all 72 state corporations was used by the research. To select the participants from the target population, the research used stratified purposive sampling. The research included both primary and secondary data, with the former coming from the administration of questionnaires and the latter coming from annual reports of the Kenya National Audit Office, audited state corporations’ financial statements and finance bills of the financial years concerned. Frequency, mean, and standard deviation were employed as descriptive statistics, whereas correlation and linear regression were utilized as inferential statistics. To evaluate relationships between dependent variable and independent variables, linear regression analysis was used. The correlation and regression analysis results showed a statistically significant relationship between the diversity of the audit committee and the quality of the financial reporting.

Aifuwa, Hope Osayantin, and Embele, Keme (2019) looked into how board attributes affected the FRQ of listed manufacturing companies. The study's deductive and positivist research philosophy was guided by multi-method quantitative research design. Descriptive and inferential statistics were used to summarize the data and derive conclusions from the population under investigation. Regression using a generalized linear model was used in the study to assess the putative hypotheses. Board independence and board gender were shown to be insignificantly related to FRQ at a 5 percent level of significance. Still, results showed that board expertise was statistically significant and positively connected to FRQ. According to the study's findings, board characteristics influence FRQ. The study advised that decreasing the number of non-executive directors on the board reduces unnecessary management expenditures.

In the United Arab Emirates (UAE), Aljifri, Alzarouni, NG, and Tahir (2014) explored the correlation between profitability and corporate disclosure level using a total of 153 joint-stock companies, both listed and unlisted. The study found no statistically significant correlation between profitability and corporate disclosure level UAE.

The research conducted by Firoozi et al. (2016) explored how Canadian companies' consistency of financial reporting related to two dimensions of board diversity (gender and geography) between 2008 and 2012 and the study comprised of Canadian companies in Compustat. The study used descriptive and inferential statistics (multivariate analysis). From their results, the consistency of financial reporting, as calculated by the number of abnormal accruals and re-statements, was lower for companies with geographically dispersed independent directors than for companies with less geographically representative boards.

Wahid (2018) conducted an empirical study to explore the effect of gender diversity on financial misconduct using financial manipulation as evidence. The study used a simple

linear regression model to establish the hypothesized relationship. The study used primary data and the results indicated that firms with gender-diverse boards reported less financial misconduct and fraud from the findings.

To better understand how board diversity affects earning management in manufacturing and related enterprises listed on the NSE, Owen (2018) performed a study in Kenya. The study used a descriptive research approach, and all manufacturing companies listed on the NSE as of December 2017 made up the study's target population. The study used secondary data from the corresponding companies' annual reports for data collection. The study examined the male and female directors' ratio using data collected over seven years. The results of several tests, including those for multicollinearity, normalcy, and unit root, showed that the gender diversity of the board had a negative and statistically significant impact on the earning management of the companies.

From the foregoing literature, the following conceptual framework was drawn.

1 Conceptual Framework

Independent Variables

Board Diversity

- Gender diversity
- Age
- Independence
- Education level
- Nationality

Firm Profitability

- Return on assets

Internal Controls

- Control environment
- Risk assessment
- Control activities
- Information communication
- Monitoring

Dependent Variable

Financial Reporting Quality

- IFRS disclosure
- Qualitative characteristics
- Auditor type

Research Methodology

The article's driving forces were the positivist research philosophy and a deductive research methodology using a multi-method quantitative research design. Inferential statistics were used to summarize the data and derive conclusions about the population. The target population consisted of the 61 companies that had continuously and actively traded at NSE between January 2014 and December 2018. The paper adopted a census study approach due to the small population.

The paper used secondary quantitative data to establish the joint effect of board diversity, firm profitability, and internal controls on FRQ of NSE-listed firms. The secondary data was sourced from NSE-listed firms' annual reports, financial statements, pamphlets, CMA, and NSE websites. The data for each study variable was collected using data capture forms and the data covered 2014 to 2018. The data collected included the total number of directors, age, the number of female directors, independent directors, foreign directors, directors with finance expertise, IFRS disclosure, internal control disclosures, while financial data included total assets and net revenue.

Results and Discussion

This paper examined the joint impact of board diversity, firm profitability, and internal controls on the FRQ of Kenyan companies listed on the NSE. The information was gathered from public audited financial statements and annual reports of the relevant NSE-listed companies from 2014 to 2018. Panel regression analysis was used to evaluate the data and test the interaction between board diversity indicators, company profitability, and internal controls on FRQ of NSE-listed companies. The regression results were interpreted based on the Pearson correlation, R-squared, and p-values. A multiple linear regression model for panel analysis was as follows: $FRQ = \beta_0 + \beta_1 BQ_{it} + \beta_2 Age_{it} + \beta_3 BG_{it} + \beta_4 BIND_{it} + \beta_5 FBM_{it} + \beta_6 FP_{it} + \beta_7 ICs_{it} + \varepsilon_{it}$ where FRQ was Financial Reporting Quality (computed as a composite index of IFRSD, qualitative characteristics, and auditor type), whereas board diversity indicators included BQ as board qualification; age as board members' average age; BG as gender of board members; BIND as board independence; and FBM as nationality of board members (foreign board members). The FP was firm profitability, ICs was internal controls, whereas β_0 was the intercept, β_{1-7} the slope, ε was the error term, i= the specific firm, and t = time in years.

The strength of the association between FRQ and board diversity (age, foreign board membership, board qualification, board independence, and board gender), firm profitability, and internal controls was determined using Pearson product-moment correlation. As Table 1 below shows, board qualification ($r = 0.117$, p-value < 0.05), FBM ($r = 0.104$, p-value < 0.05), and internal controls ($r = 0.240$, p-value<0.01) all had very low positive and statistically significant association to FRQ of listed firms in Kenya. Also, age ($r = 0.080$, p-value $>.05$), board gender ($r = 0.111$, p-value $>.05$), and firm profitability ($r = 0.011$, p-value$>.05$) all had positive but statistically insignificant association to FRQ. However, board independence ($r = -0.028$, p-value$>.05$) exhibited a negative and statistically insignificant association to FRQ. This means that board qualifications, FBM, and internal controls significantly improve FRQ of Kenya's NSE-listed companies. According to the research results, age, gender board independence and firm profitability insignificantly improve FRQ. In addition, based on the results reducing the number of independent directors would enhance FRQ.

Table 1: Correlation Among Board Diversity, Firm Profitability, Internal Controls, and FRQ

Variables	FRQ	Age	BQ	BG	BIND	FBM	FP	ICs
FRQ	1							
Age	0.08	1						
BQ	.117*	-0.026	1					
BG	0.111	-0.076	.354**	1				
BIND	-0.028	-0.084	.410**	.160**	1			
FBM	.104*	.195**	.260**	.260**	.221**	1		
FP	0.011	-0.009	0.002	-0.076	0.028	0.074	1	
ICs	.122*	0.004	.136*	0.034	0.097	0.075	0.057	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The paper explored the joint influence of board diversity, firm profitability, and internal controls on FRQ of Kenyan firms listed at NSE. Board diversity indicators comprised of gender diversity, age, educational level, board independence, and board nationality, while FRQ was computed as a composite index of IFRS disclosure, qualitative characteristics, and auditor type, firm profitability was measured using Return on Assets (ROA) and internal controls was computed as a composite value of control environment, risk assessment, control activities and information and communication, and monitoring disclosures. The data for the indicators came from each company's publicly available audited financial statements and annual reports. However, before testing the hypothesis that board diversity, firm profitability, and internal controls had no significant joint influence on FRQ, the Hausman test was done to establish if fixed or random effects should be utilized, with the null hypothesis being that random effects should be preferred over fixed effects (Greene, 2008). The p-value for the Hausman test was less than 0.05, indicating that the fixed-effects model should be used.

The paper examined the joint effect of board diversity indicators, firm profitability, and internal controls on FRQ. Table 2 below shows that the explanatory power was low (R-squared = 0.115), implying that board diversity indicators, firm profitability and internal controls jointly accounted for 11.5 percent of the variance in FRQ (dependent variable), whereas 88.5 percent was explained by other variables. The overall model was statistically significant since p-value (0.0001) was less than 0.05, hence the null hypothesis was rejected. The findings below show that the average age of directors (Age) had a statistically significant influence on FRQ (p-value = 0.026, which was less than 0.05) (see Table 2 below). Similarly, board gender (BG) was significant (p-value

= 0.023) as well as BIND (p-value = 0.001) and thus had a significant influence on FRQ. On the other hand, board nationality, board qualifications, firm profitability and internal controls were insignificant predictors of FRQ. The predictive equation was, therefore, FRQ = 0.856Age + 1.201BG – 1.685BIND. This meant that board independence was the single most important predictor variable followed by board gender and the age of directors, in that order. In other words, if board independence was enhanced marginally, FRQ, would, on average go down by 1.685 points. Similarly, if there was a marginal increase in gender balance, and age, FRQ would, on average go up by 1.201 and 0.856 units, respectively.

Table 2: Fixed Effects (Within) Regression Results of Board Diversity and FRQ

FRQ	Coefficient	P-value
Age	0.856*	0.026
FBM	0.330	0.458
BQ	0.861	0.120
BG	1.201*	0.023
BIND	-1.685*	0.001
ICS	0.041	0.275
FP	-0.058	0.773
Constant	-2.288	0.436
Model Summary		
R-squared	0.115	
F(7,236)	4.37	
Prob > F	0.0001	
Observations	305	
Number of FIRM_ID	61	

This paper explored the joint effect of board diversity, firm profitability, and internal controls on FRQ of firms listed at NSE in Kenya and proxies were used to measure the independent variables (board diversity-gender, age, independence, educational level, and nationality; firm profitability - ROA; internal controls (control environment, risk assessment, control activities, information and communication and monitoring) and the dependent variable (FRQ proxied by IFRS disclosure, qualitative characteristics, and auditor type). From the analysis, a statistically significant model emerged, suggesting that board diversity, firm profitability, and internal controls jointly predict FRQ. In addition, the analysis showed that board age, gender and board independence each significantly predicts FRQ. This indicated that by selecting directors with diverse backgrounds and different attributes, a firm can gain access to various resources and as a result, should have stronger firm performance including FRQ (Hillman, Cannella, & Paetzold, 2000). These results are in line with other studies that examined the relationship between board diversity and FRQ, such as Klai and Omori (2011), Barua et al. (2010), Ho et al. (2015), Makhlouf et al. (2018), Pulungan and Sadat (2014), and Yunos (2011), who discovered a significant correlation between board diversity and FRQ. Nevertheless, according to another research, board diversity has no impact on FRQ (Firoozi, et al., 2016; Muhammad, Ayoib & Noor, 2016). However, it is noteworthy that the concepts of board diversity, firm profitability, internal controls, and FRQ have never been examined together before, as this paper looked into this. Previous studies (Omoro, 2014; Kamalluarifin, 2016; Srinidhi et al., 2011; Thiruvadi and Huang, 2011) focused on just two variables, ignoring the combined effect of all the variables.

Conclusion and Recommendations

gender diversity while limiting the number of independent board members when constituting boards to enhance the quality of financial reports and hence consequently avert the possible collapse of the listed companies in Kenya.

This paper is subject to some limitations, for instance, the paper did not consider unlisted firms. Thus, any generalization of the results of this paper cannot be made without that caution. However, to improve on this paper, future research needs to be conducted to include both listed and unlisted firms for effective generalization. Also, future research may need to be done for a period of 10 years and include the period before 2014 and after 2018 to ascertain the long-run influence of board diversity, firm profitability and internal controls on FRQ.

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