



# Firm Characteristics, Financial Performance, and Financial Reporting Quality of Listed Firms in Malawi

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**Abstract:** *This study examines the relationship between firm characteristics (firmographics), financial performance, and financial reporting quality. The analysis focused on firm size, industry classification, profitability, and liquidity as key determinants of reporting practices. The findings reveal that industry membership significantly influences financial reporting quality, suggesting that sector-specific factors and regulatory environments play a critical role in shaping reporting outcomes. In contrast, firm size was found to be insignificant, indicating that larger firms do not necessarily produce higher-quality financial reports compared to smaller firms. Additionally, the results show that liquidity has a significant positive impact on financial reporting quality, highlighting the importance of financial stability and resource availability in ensuring transparent and reliable reporting. These findings contribute to the ongoing discourse on the determinants of financial reporting quality by underscoring the relevance of industry dynamics and financial health over firm size and profitability.*

**Keywords:** *Firm Characteristics, Financial Performance, Financial Reporting Quality, Profitability, Liquidity*

## How to cite this work (APA):

Ndhlovu, S. (2025). Firm Characteristics, Financial Performance, and Financial Reporting Quality of Listed Firms in Malawi. *Journal of Research Innovation and Implications in Education*, 9(4), 746 – 758. <https://doi.org/10.59765/dw72g>.

## 1. Introduction

The quality of financial reporting has long been a key concern for regulators, such as the IASB, researchers, firm owners, and professional accounting bodies (UCAM in the case of Malawi). This is mainly because financial statements serve as the primary medium for communicating economic information to external stakeholders, who rely on these reports for decision-making (Tan, 2022). Financial reporting is a key organizational process that delivers essential information about a firm's strategies, past activities, and current position to the users of financial statements. Pounder (2013) asserts that the value of accounting information is primarily determined by its quality, referring to its ability to influence decision-making processes. This view is supported by Herath and Albarqi (2017), who suggest that

high-quality financial information delivers substantial benefits to investors and users. Previous research has emphasized the significance of accounting information, asserting that it is the primary source of objective and authentic communication about an organization's performance.

Therefore, financial reporting must furnish the requisite information to guide user decision-making, empowering them in their roles. Higher-quality financial reporting is crucial for investors and other stakeholders who rely on financial statements (Barac, 2021). Tsoncheva (2014) emphasizes the importance of high-quality accounting information, stating that it has a significant influence on decision-making processes. This highlights the crucial role of financial reporting in providing essential information to various stakeholders for informed decision-making purposes. Similarly, Klai and Omri (2011) assert that

financial information forms the basis for investment decisions among capital market participants, which include owners, creditors, firm partners, and regulators.

Although financial reporting quality has received considerable attention, it primarily refers to the extent to which a firm's financial reports accurately reflect its operating performance and provide helpful information for predicting future cash flows. The relationship between firm characteristics, firm financial performance, and financial reporting quality has been a subject of interest over the years. Researchers have examined the impact of firm characteristics (size and industry), profitability, and liquidity on financial reporting quality. Firm characteristics play a crucial role in shaping the quality of financial reporting, with size and industry being two key factors identified as influential. The general belief is that larger firms often possess more resources, sophisticated systems, and stronger governance structures, which can enhance their reporting practices. In contrast, smaller firms may face constraints that limit the quality of their reporting. Similarly, the industry in which a firm operates influences reporting standards, disclosure requirements, and the complexity of financial information provided to stakeholders. Understanding how firm size and industry affect financial reporting quality is therefore essential for regulators, investors, and researchers seeking to evaluate the transparency and reliability of financial information.

This research incorporates firm financial performance as a component of the independent variables. Various studies have investigated whether a firm's financial performance correlates with the quality of financial reporting (Soyeni & Olowale, 2019; Putri & Indriani, 2019; Agyei-Mensah, 2012; Hassan & Bello, 2013; Olowokure et al., 2016; Hamid et al., 2014; Kamalluarifin, 2016). These studies have yielded diverse findings. Profitability and liquidity are vital performance constructs that influence the financial reporting quality of companies. Their inclusion is justified based on their role in determining a firm's financial stability, management behavior, and transparency in financial disclosures.

Indicators of firm financial performance play a vital role in evaluating the quality of financial reporting. These indicators, such as profitability ratios, liquidity measures, and leverage ratios, provide insights into a company's financial health and operational efficiency. Profitability and liquidity are fundamental indicators of a firm's financial health, and both play a significant role in shaping the quality of financial reporting. Profitability reflects a firm's ability to generate earnings, which may influence management's incentives to either enhance transparency or engage in earnings management. Liquidity, on the other hand, measures the firm's capacity to meet short-term obligations and signals financial stability, which can affect

stakeholders' confidence in reported information. Examining the impact of profitability and liquidity on financial reporting quality is therefore crucial for understanding how financial performance shapes disclosure practices, reliability, and transparency in corporate reporting.

Profitability is often cited as a factor influencing the variation in disclosure practices among firms. When profitability is high, management tends to be more transparent and willing to share detailed information, leading to financial reporting quality (Inchausti, 1997; Suwaidan, 1997; Wallace and Naser, 1995; Lang and Lundholm, 1993). Conversely, less profitable firms are generally less inclined to release extensive information, aiming to conceal their poor performance. Profitability can be assessed using measures such as net income, profit margin, return on assets, and return on equity. Liquidity is an accompanying factor supporting good financial reporting quality by ensuring financial stability, reducing misreporting incentives, and fostering operational transparency. While not a prerequisite, its presence enhances the conditions necessary for accurate and reliable financial reporting. A study on firms listed on the Tehran Stock Exchange found that liquidity positively affects financial reporting quality. The research suggested that better liquidity management can lead to more accurate and reliable financial statements (Hamidzadeh & Zeinali, 2015).

## 1.1 Statement of the problem

Financial reporting quality remains a cornerstone of transparency, accountability, and decision-making in both private and public sectors. Financial reporting quality is crucial for ensuring the smooth functioning of the market, as it directly impacts investor and stakeholder confidence (Azar et al., 2019). The value of accounting information is typically judged by its quality (Pounder, 2013), making the delivery of high-quality financial reporting imperative for both organizations and the capital market (Kaawaase et al., 2021). However, variations in reporting quality across firms continue to raise concerns among regulators, investors, and other stakeholders. Existing studies have examined several factors influencing financial reporting quality, yet limited attention has been given to how firm-specific characteristics and financial performance jointly shape the reliability and integrity of financial information.

Firm characteristics such as size and industry affect the capacity to produce credible financial reports. Similarly, financial performance indicators, including profitability and liquidity, may influence management's motivation to either disclose transparent information or engage in earnings management. Despite these associations,

empirical findings remain inconclusive and context-dependent, particularly in developing economies where institutional frameworks and regulatory enforcement differ.

Therefore, it is essential to examine how firm characteristics and financial performance influence financial reporting quality. Understanding these relationships will provide valuable insights for policymakers, regulators, and corporate leaders seeking to strengthen reporting standards and enhance stakeholder confidence in financial disclosures.

## 1.2 Research questions/objectives

The objectives of the study are the following:

1. To establish the relationship between the firmographic characteristics and financial reporting quality.
2. To investigate the influence of firm's financial performance on financial reporting quality.

## 2. Literature Review

The relationship between firmographics, financial performance, and financial reporting quality has attracted considerable attention in accounting research. Scholars and regulators alike recognize that the way firms report their financial information is shaped not only by regulatory frameworks but also by internal attributes such as size and industry. Similarly, financial performance indicators, including profitability and liquidity, influence management's reporting behavior and the extent of disclosure. A growing body of literature highlights how these factors interact to determine the reliability, transparency, and decision-usefulness of financial statements. This section reviews prior studies on firm characteristics (firmographics) and financial performance, with a focus on their impact on financial reporting quality, in order to establish the theoretical and empirical foundation for the current study.

### 2.1 Firmographics

Firmographics, also known as firmographic data, are the characteristics of a company that describes its primary components. Firm characteristics refer to a company's demographic and managerial variables, which form part of its internal environment (Chinedu & Chinedu, 2018). A company's characteristics have been shown to play a substantial role in explaining the quality of its financial reporting (Farouk, 2019). Hassan and Bello (2013) posited that structural characteristics are vital components of a firm's overall characteristics, referring to attributes related

to the company's structure that are essentially unique to each organization. The primary elements of companies observed in this study include industry (the sector in which a company operates) and size (defined in terms of total assets).

#### 2.1.1 Relationship Between Firmographics and Financial Reporting Quality

Putri and Indriani (2019) found that firm size does not significantly impact the financial reporting quality of the companies listed on the Indonesian Stock Exchange. Olowokure et al. (2016), in their study of the listed deposit banks in Nigeria, found that firm size has no significant impact on financial reporting quality. In addition, Farouk et al. (2019) found that firm size (growth) weakly influences financial reporting quality. However, some studies contradict the findings and show that firm size does influence financial reporting quality. Soyemi and Olowale (2019) found that firm size significantly positively influences financial reporting quality in Nigerian non-financial companies. Ishak et al. (2018) also found that firm size impacts financial reporting quality. Asyik et al. (2023) found that firm size impacts financial reporting quality using 85 go-public companies on the Indonesia stock exchange.

### 2.2 Financial Performance

The interplay between profitability, liquidity, and financial reporting quality shows an interacting impact. Profitability ensures long-term sustainability, while liquidity provides immediate stability. Together, they create a holistic view of financial health that directly influences management's reporting incentives. Firms experiencing low profitability and liquidity are more likely to engage in financial misrepresentation, highlighting the importance of these constructs in financial reporting quality models. Including profitability and liquidity as performance constructs influencing financial reporting quality provides a comprehensive understanding of how financial health impacts reporting behaviors. These constructs align with theoretical frameworks and empirical evidence, underscoring their critical role in enhancing the transparency and reliability of financial statements.

Profitability refers to a business's capacity to generate earnings, with profit representing what remains after covering all expenses associated directly with revenue generation. In other words, profitability is a cornerstone in every business endeavor, representing the gauge of a company's earnings after factoring in all expenditures. Enhancing profitability consistently ranks as a primary objective for businesses, as it paves the path toward heightened revenue, enhanced financial resilience, and

expanded avenues for development. The arguments linking profitability to financial reporting quality are grounded in signaling theory, a theoretical framework that helps us understand how firms communicate their performance to the market. According to this theory, firms that perform exceptionally tend to increase their communication efforts with the market (Aygei-Mensah, 2012). In other words, the higher a company's profitability, the more it engages in financial disclosure, leading to annual reports that contain relevant and faithfully represented information. This means the information provided has the capacity to influence decisions (relevance) and has the completeness qualitative characteristic (faithful representation). Singhvi and Desai (1997) further suggest that management will likely provide more information when profitability is high. Soyemi and Olowale (2019) state that profitability comes as a result of business activity; the company can either earn profit or suffer loss under the influence of various factors. They further added that, naturally, managers are inclined to report good news (profits) faster than bad news (losses) because such disclosures can affect the share price and other indicators.

Agency theory suggests that managers of profitable firms may be more likely to disclose information to boost investor confidence, protect their compensation arrangements, and lower capital-raising costs (equity financing) [Bozcuk, 2012; Waweru & Riro, 2013]. Some researchers corroborate this assertion, noting that managers of profitable companies tend to share more information in their financial reports to justify their benefits (Ezat & El-Marsy, 2008; Kipchoge, 2015). In the context of the agency problem, management may resort to earnings management to portray higher profitability, thereby securing increased compensation (Waweru & Riro, 2013).

Additionally, Hassan and Bello (2013) discovered that manufacturing companies with higher profitability engage in less earnings manipulation, thus leading to reliable financial reports. Thus, this argument shows that Kamaluarifin (2016) argued that the influence of profitability on disclosure quality can be understood from two perspectives. First, management in more profitable firms tends to disclose more information to demonstrate their ongoing success, thereby justifying compensation arrangements and maintaining their positions. In essence, increased profitability reduces the incentive for earnings management, resulting in higher-quality financial statements. Conversely, less profitable firms disclose more information to explain their performance, garner support, and uphold their integrity. Companies disclose more information, meaning that higher-quality financial reporting is achieved.

Liquidity denotes the degree of ease with which an asset or security can be traded in the market without causing

notable fluctuations in its price. As Subramanyam and Wild (2009) described, liquidity denotes the availability of resources to fulfill short-term cash obligations, indicating the capability to convert assets into cash promptly to meet impending liabilities. Nwanyanwu (2013) defines liquidity as the timeframe required to convert an asset into cash. It assesses the speed and efficiency at which an asset can be converted into cash without significantly impacting its overall worth. A high level of liquidity signifies a robust presence of buyers and sellers, facilitating swift transactions at equitable prices. Conversely, low liquidity suggests a need for more market participants, posing challenges in quickly selling an asset without settling for a diminished value. Various metrics gauge liquidity, including working capital, current, and acid-test ratios. This study assesses liquidity through working capital, defined as the surplus of current assets over current liabilities. To mitigate the advantage larger companies might have, the working capital was evaluated using a ratio, where working capital is divided by total assets or the book value of equity. This approach ensures a fair assessment of working capital per unit of Malawi Kwacha of assets or book value of equity, effectively eliminating potential biases.

From the theoretical framework point of view, the signaling theory argues that liquidity metrics serve as signals to stakeholders regarding a firm's financial robustness, which is directly tied to its reporting integrity. The resource-based view would support the idea that liquid firms have greater resources to invest in compliance and accurate reporting systems, ensuring better financial reporting quality. However, monitoring liquidity helps auditors and regulators identify firms at higher risk of financial misstatements during liquidity crises. It enables stakeholders to assess financial viability, especially in industries where cash flow constraints are prevalent.

Liquidity and financial reporting quality are closely interconnected in the realm of finance. Firms and regulators should focus on liquidity as a critical element in a broader financial reporting quality-enhancing strategy. Firms with high-quality financial information tend to exhibit better liquidity. Poor financial reporting, such as restatements, can lead to increased illiquidity, as demonstrated by a study that found increased illiquidity several months before and after restatement announcements, especially in firms listed on NASDAQ. This relationship is particularly strong in cases involving revenue recognition issues and larger firms with volatile returns (Bardos, 2011). Firms with higher-quality disclosures tend to have lower bid-ask spreads and reduced adverse selection spread components, which enhances overall market liquidity. However, the relationship is complex as these firms tend to have lower quoted depths.

Thus, better liquidity enhances high-quality financial reporting since information asymmetry is reduced. Effective liquidity management is essential in maintaining high financial reporting standards, benefiting investors and firms.

### **2.2.1 Relationship Between Profitability and Financial Reporting Quality**

Past studies have tried to determine the relationship between profitability and financial reporting quality, but varied results have come out. Studies suggest that profitability impacts the extent of earnings manipulation, directly influencing the perceived reliability of financial statements. Choi and Pae (2011) show a positive correlation between sustained profitability and enhanced voluntary disclosures, improving overall financial reporting quality. The study by Soyeni and Olawale (2019) found that profitability positively influenced financial reporting quality. Also, Putri and Indriani (2019) found that profitability significantly impacted the quality of financial reporting. While Kamalluarifin's (2016) study showed a positive relationship between profitability and timeliness of corporate Internet financial reporting. Furthermore, Agyei-Mensah (2012) found that profitability is significantly positively related to increased disclosure on Internet financial reporting. These studies indicate that the more profitable the company is, the higher the quality of financial reporting. On the contrary, Waweru and Riro (2013) found that profitability is not significantly related to earnings management (used as a proxy for quality financial reporting). Ibrahim (2014) also found a strong negative relationship between return on investment (profitability) and voluntary disclosure (financial reporting quality).

In their study, Asyik et al. (2023) found that overall company performance is related to quality financial statements. They looked at different aspects, and the results showed that the operating cycle had no direct impact on the quality of financial reporting. In addition, they also found an indirect effect of sales volatility on the firm's value through the quality of financial reporting. They also found a direct positive impact of firm size on financial reporting quality. However, their study found that there was no positive indirect effect of firm age on a firm's value through quality financial reporting. Ebaid's (2022) results showed a substantial correlation between three organizational characteristics—company size, profitability, leverage, and quality financial reporting (timely financial reporting). Previous studies present mixed results. Therefore, this study attempts to find out if there is a positive link between profitability and quality financial reporting in Malawi.

### **2.2.2 Relationship Between Liquidity and Financial Reporting Quality**

Past studies have tried to determine the relationship between liquidity and the quality of financial reporting (Takhtaei, 2012; Nyanwanwu, 2013; Hassan & Bello, 2013). Takhtaei (2012) found that disclosure quality has a significant positive relationship with liquidity (using the current and acid-test ratios). In measuring disclosure quality, the research used annual scores of companies listed on the stock exchange, and the scores were measured using the timeliness and reliability of disclosed information. On the contrary, Nwanyanwu (2013) found that financial reporting quality had a weak negative relationship with cash flow (used as a proxy for liquidity). Hassan and Bello (2013) found an inverse relationship between liquidity and earnings quality. There are mixed findings regarding the impact of liquidity on quality financial reports, which motivates the study to explore the relationship between liquidity and quality financial reporting in Malawi.

## **3. Methodology**

### **3.1 Research Design**

This study adopted a quantitative research design to examine the influence of firm characteristics and financial performance on financial reporting quality over ten years. The study covered the years 2009 to 2019, which were divided into three distinct sub-periods: 2009–2013, 2014–2016, and 2017–2019. This segmentation allowed for the assessment of trends and changes in financial reporting practices over time, reflecting different economic and regulatory environments. The quantitative approach was chosen for its ability to objectively measure relationships among variables using numerical data and statistical techniques.

### **3.2 Population and Sample**

The study population comprises all 13 companies registered on the Malawi Stock Exchange between 2008 and 2019. The study used all thirteen participants without sampling, and all had information available for the study. Existing data (secondary data) from the company's annual reports was extracted and utilized.

### **3.3 Data Collection and Analysis**

The study employed quantitative methods to examine the influence of firm characteristics and financial performance on financial reporting quality. Secondary data were obtained from audited financial statements, annual reports, and relevant databases. The data were analyzed using

descriptive statistics, correlation analysis, and regression models to determine the extent to which firm characteristics and financial performance influenced financial reporting quality across the three periods.

Profitability was measured using net income ratio to total assets (return on assets [ROA]). Liquidity was measured using the quick asset ratio (current assets less inventory divided by current liabilities). Financial reporting quality was measured using the proportion of companies moving towards good-quality financial reports.

$$\Delta \left( 1 - \frac{P_{it}}{BV_{it}} \right) = C + \beta_1 SZ_{it} + \beta_2 IN_{it} + \beta_3 PERPr_{it} + \beta_4 PERLq_{it} \text{-----Eq. 1}$$

Where,

$\Delta \left( 1 - \frac{P_{it}}{BV_{it}} \right)$  is the change in variation from 1 of the ratio of stock price to book value of equity of company *i* at time *t*.

1.  $SZ_{it}$  measures firm characteristic size, which is the total assets the company owns (possesses).
2.  $IN_{it}$  measures the firm characteristic industry, which is the sector into which the company trades.
3.  $PERPr_{it}$  measures a firm's profitability, representing the net income ratio to net assets.

4.  $PERLq_{it}$  measures a firm's performance by liquidity. Liquidity represents the ability to convert assets into cash, measured by working capital.

### 3.4 Ethical Considerations

Beneficence. The research was conducted to discover information about the quality of financial reporting in Malawi and how it can be enhanced. Thus, the aim was not to harm or find information at the expense of any organization. The results were presented in aggregate; thus, no possible harm would fall on any company or its employees.

## 4. Results and Discussion

This section presents the results, analysis, interpretation, and discussion. The presentation follows each independent variable.

### 4.1 Size and Financial Reporting Quality

For size firmographic analysis, the study employed bivariate correlation analysis.

**Table 1: Size and PB Alignment Mean Descriptive Statistics**

	M	SD	N
Period 1 (2009-2013)	.5538	.26018	13
Period 2 (2014-2016)	.7179	.29957	13
Period 3 (2017-2019)	.6154	.22958	13
Total Assets (2009-2013)	53723166153.85	50068070666.24	13
Total Assets (2014-2016)	111530238846.15	94150335539.49	13
Total Assets (2017-2019)	200319939871.79	182660981648.35	13

**Table 2: Correlation Matrix Between Period and Total Assets (n = 13)**

Variable	Total Assets 2	Total Assets 3	Period 1	Period 2	Period 3
Total Assets 1	.826**	.686*	.457	-.112	-.231
Total Assets 2		.925**	.526	.062	-.185
Total Assets 3			.464	-.217	-.406

\* $p < .01$ , \*\* $p < .001$

Table 1 results show that total assets increased from 2009 to 2019, starting with a mean of MK53,723,166,153.85 in the first period, MK111,530,238,846.15 in the second period, and MK200,319,939,871.79 in the third period. This shows that the size of the companies grew during the study period. At the same time, the mean for financial reporting quality shows an improvement between periods one and two (from .55 to .72) and a decline in financial

reporting quality (from .72 to .62) from period two to period three.

Table 2 shows the relationship between assets and the quality of financial reports over 3 periods. In Period 1 (2009-2013), the correlation between assets and quality is .46 ( $p = .117$ ) while the relationship between assets and quality in Period 2 is -.062 ( $p = .839$ ). In Period 3, the

correlation between assets and quality is  $-.406$  ( $p = .169$ ). Although not statistically significant (likely due to the small sample size), the relationship between assets and the quality of financial reports appears to exist. In Period 1, larger companies have higher-quality financial reports. In Period 2, there appears to be no relationship between size (total assets) and quality of reports. However, in Period 3, larger companies seemed to have lower-quality financial reports, while smaller companies tended to have higher-quality financial reports.

The study further analyzed the whole period without breaking it into periods to determine whether overall size influences financial reporting quality. The correlation between total assets and financial report quality is  $.151$  ( $p = .622$ ), suggesting that financial reporting quality does not depend on the size of companies. However, the study found a relationship between firm size and financial reporting quality. However, firm size did not significantly influence financial reporting quality for all the study periods. The finding challenges traditional assumptions about larger companies' reporting accuracy and transparency

superiority. Instead, the focus shifts to other factors (such as corporate governance, internal controls, audit practices, etc.) that may play more crucial roles in determining financial reporting quality. The fact that firm size does not significantly influence financial reporting quality implies that uniform accounting standards, such as IFRS, effectively enforce high reporting standards across companies of all sizes. This reduces the pressure to design different reporting requirements for large vs. small companies, simplifying regulatory frameworks.

## 4.2 Industry and Financial Reporting Quality

The industries in Malawi were reclassified (regrouped) into two: the Financial Services Sector (banking, investment, insurance, property, and industrial holding) and other sectors (tourism, technology, and food). The analysis was conducted using an independent samples  $t$ -test for the three periods under study. The results are presented in Table 3.

**Table 3: Industry Sector Independent Samples Test Results**

Period	Sector	N	M	SD	t	df	P	ES(d)
Period1 Preparation Period (2009-2013)	Financial	9	.64	.19	2.15	11	.055	1.29
	Other	4	.35	.30				
Period 2 Implementation Period (2014-2016).	Financial	9	.78	.29	1.09	11	.300	0.65
	Other	4	.58	.32				
Period 3 Adoption Period (2017-2019).	Financial	9	.63	.20	.32	11	.753	0.19
	Other	4	.58	.32				
	Financial	9	.68	.14	2.53	11	.028	1.52
Overall (2009-2019)	Other	4	.48	.09				

Note: Overall Period–Levene’s test  $f = 1.476$ ,  $p = .250$   
 Period 1 - Levene’s test  $f = 2.533$ ,  $p = .140$   
 Period 2 - Levene’s test  $f = .002$ ,  $p = .968$   
 Period 3 - Levene’s test  $f = 1.934$ ,  $p = .192$

*Period One:* Furthermore, Table 3 presents Group statistics for industry categorization and financial reporting quality in period one, showing that the homogeneity of variance assumption was met ( $F = 2.53$ ,  $p = .140$ ). The difference in the quality of financial reports between the financial services sector ( $M = .64$ ,  $SD = .19$ ) and other sectors ( $M = .35$ ,  $SD = .30$ ) was insignificant ( $t(11) = 2.15$ ,  $p = .055$ ). Furthermore, the magnitude of the group difference is significant (Cohen’s  $d = 1.29$ ). Period one, the financial services sector produced higher-quality financial reports than other service sectors for the study period (2009-2013), although the difference was statistically insignificant at a 95% confidence level.

*Period Two:* The results from Period 2, as shown in Table 3, indicate that the homogeneity of variance assumption was met ( $F = 0.002$ ,  $p = 0.968$ ). The difference in the

quality of financial reports between the financial services sectors ( $M = .78$ ,  $SD = .29$ ) and other sectors ( $M = .58$ ,  $SD = .32$ ) was insignificant ( $t(11)=1.09$ ,  $p = .300$ ). Furthermore, the magnitude of the group difference is moderate (Cohen’s  $d = 0.65$ ). For period two, the financial services sector produced higher-quality financial reports than other service sectors for the study period (2014 to 2016), although the difference was statistically insignificant at a 95% confidence level.

*Period Three:* The results from Period Three, as shown in Table 3, indicate that the homogeneity of variance assumption was met ( $F = 1.93$ ,  $p = .192$ ). The difference in the quality of financial reports between the financial services sectors ( $M = .63$ ,  $SD = .20$ ) and other sectors ( $M = .58$ ,  $SD = .32$ ) was insignificant ( $t(11)=.32$ ,  $p = .753$ ). Furthermore, the magnitude of the group difference is

small (Cohen's  $d = 0.19$ ). For period three, the quality of financial reports in the financial services sector was almost the same as that of other service sectors for the study period (2017-2019).

**Overall Results:** Table 3 shows that the study using pooled data from 2009 to 2019 found that financial reporting quality statistically differs according to industry. The homogeneity of variance assumption was met ( $F=1.48, p = .250$ ). The difference in the quality of financial reports between the financial services sectors ( $M = .68, SD = .14$ ) and other sectors ( $M = .48, SD = .09$ ) was significant ( $t(11)=2.53, p = .028$ ). And the magnitude of the group difference is large (Cohen's  $d=1.52$ ). Overall, financial services sector produced higher-quality financial reports than other service sectors for the study period (2009 to 2019). This can be attributed to the regulations and restrictions that guide financial services stipulated by different bodies.

The study found that in overall financial reporting quality does significantly differ between the industry sectors (financial services sector and other sectors). The study findings mean that financial reporting is linked to the type of industry a company is operating under. When financial reporting quality varies significantly between sectors, comparing the financial performance and health of companies across industries becomes difficult. This lack of comparability can impact investors' ability to assess inter-sector performance objectively and may lead to biased decisions, as some sectors may appear more stable or profitable simply due to differences in reporting regulations.

### 4.3 Firm's Financial Performance Descriptive Statistics

**Table 4: Profitability Descriptive Statistics**

	N	Min	Max	M	SD
Profitability (09)	13	2.21	35.53	11.4169	10.41198
Profitability (10)	13	-9.09	36.26	8.7192	12.30674
Profitability (11)	13	.58	38.42	9.0115	11.60039
Profitability (12)	13	-1.67	25.17	7.1938	8.23676
Profitability (13)	13	.45	28.80	11.1169	8.99577
Profitability (14)	13	-.11	41.62	13.1692	13.54145
Profitability (15)	13	.49	33.68	12.9792	10.64116
Profitability (16)	13	-.23	19.72	6.5792	6.10158
Profitability (17)	13	-16.26	26.58	5.2238	10.64844
Profitability (18)	13	-.97	25.52	8.3423	8.48050
Profitability (19)	13	1.09	22.58	8.0946	7.34798
Valid N (listwise)	13				

Note:  $F(10,120) = 1.244, p = .270, \eta^2=.094$

The study's results indicate that the minimum ROA was -16.26, while the maximum was 41.62. The profitability mean was 9.26, and the standard deviation was 10.026.

Table 4 shows the mean for each year under study for profitability, and the data were used to develop the trend analysis presented in Figure 1.



**Figure 1: The Trend for Average Profitability for the Period 2008 to 2019**

Table 4 above shows that the mean for profitability over the study years ranged between 5 and 14 and this is expressed in Figure 1; the trend analysis highlights this. This indicates that companies generally operated with profitability over the study period. However, the trend analysis of Figure 1 showed a downward trend, representing a reduction in profitability percentages. This indicates that the companies were making fewer profits as the years progressed, and this is a wrong move as profitability trends are expected to be on an upward trend instead of a downward trend. A repeated measures ANOVA was conducted to determine if there were significant changes in profitability over the years (2009-2019). No significant changes were detected ( $F(10,120) = 1.244, p = .270$ ), suggesting that profitability was consistent over time.

### Liquidity

The study results indicated that the minimum liquidity was 0.240, which is significantly below the rule of thumb of 1, while the maximum liquidity was 18.01, exceeding the rule of thumb, indicating that cash and cash equivalents were relatively high. The mean for liquidity was 1.36, and the standard deviation was 1.6185. Table 5 below provides the average yearly liquidity for the companies under study. The trend analysis reveals that the average liquidity for the studied years ranged between 1.07 and 2.29. This indicates that companies generally operate above the rule of thumb (1.00), which is considered good since they exceed the rule of thumb. A repeated measures ANOVA was conducted to determine if there were significant changes in liquidity over the years (2009-2019). No significant changes were detected ( $F(10,120) = .669, p = .751$ ). This suggests that liquidity was consistent over time.

**Table 5: Liquidity Descriptive Statistics**

	N	Min	Max	M	SD
Liquidity (09)	13	.850	1.510	1.12692	.185220
Liquidity (10)	13	.560	2.360	1.20615	.561286
Liquidity (11)	13	.290	18.010	2.28923	4.763420
Liquidity (12)	13	.250	3.490	1.34777	.999828
Liquidity (13)	13	.240	2.880	1.23462	.797356
Liquidity (14)	13	.340	3.690	1.35769	.911292
Liquidity (15)	13	.330	3.850	1.29923	.978089
Liquidity (16)	13	.260	3.460	1.06538	.795337
Liquidity (17)	13	.260	4.420	1.24692	1.020346
Liquidity (18)	13	.490	4.670	1.61462	1.174000
Liquidity (19)	13	.580	1.830	1.13615	.308937
Valid N (listwise)	13				

Note:  $F(10,120) = .669, p = .751, \eta^2 = .053$

Figure

*The Trend for Average Liquidity for the period 2008 to 2019*



**Figure 2: The Trend for Average Liquidity for the period 2008 to 2019**

## 4.4 Firm Financial Performance and Financial Reporting Quality

Based on Table 6 below, the study infers that liquidity is a significant predictor of financial reporting quality,  $b =$

.134,  $t = 3.920$ ,  $p = .030$ . On the other hand, profitability does not significantly predict financial reporting quality.

**Table 6: Coefficients**

		b	SE	$\beta$	t	p	Tolerance	VIF
1	(Constant)	.010	.483		.022	.984		
	Profitability (2009-2019)	.007	.006	.280	1.257	.298	.229	4.363
	Liquidity (2009-2019)	.134	.034	.664	3.920	.030	.396	2.524

Note:  $R^2 = .966$ ,  $AdjR^2 = .864$ ,  $F(9,12) = 9.446$ ,  $p = .045$

The results indicate that having the ability to convert assets to cash influenced the quality of financial reporting. Results also show that an increase by a unit in liquidity would likely increase financial reporting quality by .134. The findings mean that companies with good liquidity have better financial reporting quality. The findings are consistent with relevant literature. A study conducted by Amr (2016) on the listed companies of the Egyptian Stock Exchange agrees with this study's findings and found a significant positive relationship between liquidity and financial reporting quality. The study concluded that liquidity is a good predictor of financial reporting quality. The study by Hamidzadeh and Zeinali (2015) on companies listed on the Tehran Stock Exchange in Iran likewise found that liquidity positively affects financial reporting quality. Also, a study by Hassan and Bello (2013) on companies in Nigeria's manufacturing industry found that liquidity is significantly associated with the quality of financial reporting. In addition, another study done by Bardos (2011) using companies listed on the NASDAQ Stock Exchange found that liquidity and financial reporting quality have a significant positive relationship. However, other studies have found contradictory results. Farouk et al. (2019), in a study of quoted industrial goods companies in Nigeria, found a weak influence ( $r = .284$ ) of liquidity on financial reporting quality. A study by Putri and Irwandi (2016) on the manufacturing industry in Indonesia found that liquidity did not significantly influence financial reporting.

The probable causes for the relationship between liquidity and financial reporting quality could stem from several interconnected mechanisms, even if causality cannot be established from the current study. (1) Market discipline and transparency: Higher liquidity often attracts a broader base of investors, including institutional participants, who demand greater transparency and accuracy in financial reporting. As a result, companies may enhance their reporting practices to meet investor expectations and sustain liquidity levels. (2) Reduced cost of capital and enhanced reporting standards: Companies with high liquidity benefit from a reduced cost of capital, enabling them to allocate resources toward robust financial systems and better reporting practices. Improved financial infrastructure could lead to higher-quality financial reporting. (3) Managerial incentives: In liquid markets,

stock prices react swiftly to new information. This market responsiveness might incentivize managers to prioritize accurate and timely financial reporting to avoid the negative consequences of information asymmetry or investor mistrust. Hence leading to better financial reporting quality. (4) Investor monitoring: High liquidity often signals active investor participation, which increases monitoring pressure on the company's management. This heightened scrutiny can compel companies to maintain high standards of financial reporting to meet the expectations of vigilant investors. In maintaining high standards, companies will achieve quality financial reporting. (5) Endogenous governance mechanisms: Companies with high liquidity may also have stronger governance practices to maintain investor confidence. Thus indirectly contributing to improved financial reporting quality. For example, audit quality, board oversight, and internal controls might all be more robust in liquid firms, leading to better reporting. (6) Signaling effects: Companies with high liquidity might use high-quality financial reporting as a signaling mechanism to distinguish themselves in competitive markets. High liquidity often attracts diverse investors, including those who prioritize transparency and accountability. By producing accurate, detailed, and timely financial reports, these companies signal that they are well-managed, financially stable, and committed to ethical practices. This signaling can foster trust and further reinforce liquidity, creating a feedback loop.

While these potential causes suggest ways in which liquidity might influence financial reporting quality, it is essential to acknowledge that these relationships could be bidirectional or influenced by unobserved variables, such as corporate culture or macroeconomic factors. For instance, corporate culture plays a significant role in shaping liquidity and financial reporting quality. A culture that values transparency, accountability, and ethical behavior can simultaneously drive better reporting practices and attract investor confidence, leading to enhanced liquidity. Conversely, a lack of such a culture might undermine both. The bidirectionality of the relationship further complicates interpretation. High-quality financial reporting could enhance liquidity by reducing information asymmetry and attracting more investors, while high liquidity might incentivize firms to

maintain or improve their reporting standards due to increased investor scrutiny. These intertwined dynamics suggest that the causality may not run in a single direction but could be mutually reinforced.

## 5. Conclusion and Recommendations

### 5.1 Conclusion

The study examined the influence of firm size, industry sector, profitability and liquidity on financial reporting quality. The results showed that firm size does not significantly influence financial reporting quality, however a relationship was established among them. In contrast, the study found that industry sector significantly influences financial reporting quality. Furthermore, under financial performance, the study found that profitability does not significantly influence financial reporting quality, however liquidity significantly influences financial reporting quality.

### 5.2 Recommendations

The following are recommendations for addressing the implications of financial reporting quality that do not differ significantly between industry sectors. While standardization is important, industries with unique operational and financial characteristics may require tailored reporting standards. Therefore, the study recommends that regulatory bodies like the IASB develop sector-specific guidelines that complement the existing IFRS framework, ensuring that unique industry risks, such as technology, banking, and manufacturing, are properly addressed.

Furthermore, the regulatory bodies can improve the disclosure of industry-specific risks. To enhance the comparability of financial statements across industries, companies should be encouraged to include detailed disclosures about industry-specific risks that are not covered under generalized standards. The study further recommends that a study be conducted with a larger population to determine if firm size has an influence on financial reporting quality in Malawi. In addition, the study recommends that investors should scrutinize financial reporting from companies of all sizes, placing pressure on management to ensure accuracy and transparency. Investors should not rely on firm size as a proxy for reporting quality and instead focus on factors like governance and transparency.

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