

Corporate Governance Practices and Aggressive Accounting: Moderating Effects among Firms Listed at the Nairobi Securities Exchange

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Abstract: *Aggressive accounting remains a major concern among publicly listed firms because it compromises the quality, reliability, and transparency of financial reporting. Financially distressed firms often engage in aggressive accounting practices such as premature revenue recognition, expense deferral, and reserve manipulation to conceal deteriorating financial conditions. This study examined the effect of financial distress signals on aggressive accounting among firms listed at the Nairobi Securities Exchange (NSE), with corporate governance practices investigated as a moderating variable. Specifically, the study evaluated the influence of liquidity signals, financial leverage signals, profitability signals, and operational efficiency signals on aggressive accounting. The study was anchored on Risk and Return Theory, Trade-Off Theory, Pecking Order Theory, Credit Risk Theory, and Positive Accounting Theory. A mixed-methods research design was adopted, utilizing both primary and secondary data from NSE-listed firms. Data were analyzed using descriptive statistics, correlation analysis, multiple regression analysis, and moderated regression analysis. Findings revealed that financial leverage and profitability signals significantly influenced aggressive accounting, while liquidity and operational efficiency signals exhibited insignificant effects. Corporate governance practices significantly influenced aggressive accounting directly; however, their moderating effect on the relationship between financial distress signals and aggressive accounting was statistically insignificant. The study concludes that financial leverage and profitability pressures are the primary drivers of aggressive accounting among NSE-listed firms. The study recommends strengthening governance mechanisms, enhancing financial monitoring systems, and enforcing stricter reporting standards to improve financial reporting quality and investor confidence.*

Keywords: Aggressive Accounting, Corporate Governance, Earnings Management Emerging Market, Financial Distress Signals, Financial Reporting Quality, Leverage, Nairobi Securities Exchange, Profitability.

1. Introduction

The quality of financial reporting remains one of the most important determinants of investor confidence, capital market efficiency, and organizational accountability. Financial statements provide critical information that investors, creditors, regulators, and other stakeholders use to assess corporate performance and make economic decisions. Consequently, any deliberate distortion of financial information undermines market confidence and may lead to inefficient allocation of resources (Amalia et al., 2024; Mesioye & Bakare, 2024; Adejumo & Ogburie, 2025). In recent years, concerns regarding aggressive accounting practices have increased significantly across both developed and emerging economies due to numerous corporate failures linked to financial reporting irregularities.

Aggressive accounting refers to the deliberate use of accounting discretion, estimates, judgments, and reporting choices that maximize reported earnings or improve financial positions while remaining within the boundaries of Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) (Kelly, & Murphy, 2021; Almutairi, 2021). Such practices may include premature revenue recognition, delayed expense recognition, manipulation of provisions and reserves, income smoothing, and earnings management through discretionary accruals.

Although aggressive accounting may not necessarily constitute fraud, it often reduces the transparency and reliability of financial statements and can conceal underlying financial problems.

Globally, firms experiencing financial distress have been shown to exhibit a greater propensity to engage in aggressive accounting. Financial distress refers to a situation in which a firm encounters difficulties in meeting its financial obligations due to inadequate cash flows, declining profitability, excessive leverage, or deteriorating operating performance (Cindik & Armutlulu, 2021). Under such conditions, managers face increasing pressure from investors, creditors, shareholders, and regulators to demonstrate favorable financial performance. Consequently, they may resort to earnings manipulation or other aggressive reporting techniques to maintain market confidence and secure continued access to financing (Martínez-Sola et al., 2024).

Recent global economic developments have intensified these concerns. The aftermath of the COVID-19 pandemic, geopolitical instability, rising inflation, increasing interest rates, and tightening credit conditions have exposed many firms to significant financial pressures. Studies conducted across Europe, Asia, and North America show that declining profitability, increasing leverage, and liquidity constraints are strongly associated with earnings management practices

aimed at concealing financial weakness (Dzung et al., 2024; Wiśniewska et al., 2024).

Within emerging economies, the problem is often exacerbated by weak governance systems, inadequate regulatory oversight, and information asymmetry. Evidence from Sub-Saharan Africa indicates that financially distressed firms frequently engage in aggressive accounting to avoid debt covenant violations, preserve investor confidence, and maintain access to external financing (Oreshile et al., 2025). Similar findings have been reported in Egypt, Nigeria, Ghana, Tanzania, and Ethiopia, where financial reporting quality remains a major regulatory concern.

Kenya presents a particularly important context for investigating aggressive accounting. The Nairobi Securities Exchange (NSE) serves as the principal capital market institution in East Africa and plays a critical role in mobilizing investment capital. Despite the regulatory oversight provided by the Capital Markets Authority (CMA), several listed firms have experienced severe financial difficulties over the past two decades (Roche, 2021). Notable examples include Kenya Airways, Mumias Sugar Company, Uchumi Supermarkets, Tuskys Supermarkets, National Bank of Kenya, and Arthi River Mining. In many cases, financial difficulties became apparent only after prolonged periods of accounting practices that masked deteriorating financial conditions.

Recent studies indicate that approximately 41% of NSE-listed firms exhibit characteristics associated with aggressive accounting behavior (Ndungu et al., 2025). Existing evidence further suggests that managerial compensation structures, debt covenant pressures, tax incentives, and information asymmetry contribute significantly to financial reporting manipulation (Nyaguthii & Kariuki, 2022; Nyongesa et al., 2024). However, despite growing interest in aggressive accounting among Kenyan firms, empirical evidence linking specific financial distress signals to distinct forms of aggressive accounting remains limited.

Most previous studies have relied on aggregate measures of earnings management such as discretionary accrual models without examining the specific dimensions of financial distress that motivate aggressive accounting behavior. Furthermore, existing studies have produced inconsistent findings regarding the role of corporate governance mechanisms in mitigating accounting manipulation (Sewe et al., 2024; Ineizeh et al. 2025). While some scholars argue that effective governance structures reduce managerial opportunism, others suggest that governance mechanisms may have limited effectiveness when firms experience severe financial pressures.

This study therefore investigates the influence of financial distress signals on aggressive accounting among firms listed at the Nairobi Securities Exchange. Specifically, the study examines the effects of liquidity signals, financial leverage signals, profitability signals, and operational efficiency signals on aggressive accounting. In addition, corporate governance practices are incorporated as a moderating variable to assess whether governance structures influence the relationship between financial distress signals and aggressive accounting behavior.

The study contributes to literature in three important ways. First, it extends existing knowledge by examining specific dimensions of financial distress rather than relying on aggregate measures. Second, it integrates corporate governance practices as a moderating variable, thereby enriching understanding of governance effectiveness under conditions of financial distress. Third, it provides empirical evidence from Kenya, an emerging market characterized by increasing concerns regarding financial reporting quality and corporate accountability.

2. Statement of the Problem

Aggressive accounting practices remain a major challenge to the credibility of the financial statement and investor confidence in capital markets globally. Corporate governance is typically viewed as an important mechanism to curb managerial opportunism and enhance the quality of financial statements. Mlawu, (2026) empirically show that good governance practices enhance earnings quality via better oversight and risk management, and Ineizeh et al. (2025) indicate that governance mechanisms like board independence and audit committees decrease earnings management. Similarly, board structure has been seen to limit both accrual-based and real earnings management and corporate governance moderates the effects of earnings management on organizational outcomes.

However, extant evidence on the moderating effect of corporate governance on the use of aggressive accounting practices remains scanty especially in Sub-Saharan Africa and among NSE-listed firms. Most existing studies have focused on the direct relationship between governance and earnings management in other institutional contexts, providing limited insights into the effectiveness of governance mechanisms within Kenya's regulatory and corporate environment. This empirical and contextual lacuna impedes the development of evidence-based governance reforms for enhancing the quality of financial reporting.

Accordingly, this study investigates the association between corporate governance practices and aggressive accounting among listed NSE firms with specific focus on the moderating role of corporate governance practices. The findings are expected to add to the corporate governance literature and provide evidence to inform corporate governance policy and practice in emerging capital markets.

3. Objective of the Study

General Objective

To examine the moderating effect of corporate governance practices on the relationship between financial distress signals and aggressive accounting among firms listed at the Nairobi Securities Exchange.

Specific Objectives

- 1) To determine the effect of liquidity signals on aggressive accounting among NSE-listed firms.
- 2) To assess the effect of financial leverage signals on aggressive accounting among NSE-listed firms.

- 3) To establish the effect of profitability signals on aggressive accounting among NSE-listed firms.
- 4) To evaluate the effect of operational efficiency signals on aggressive accounting among NSE-listed firms.
- 5) To examine the moderating effect of corporate governance practices on the relationship between financial distress signals and aggressive accounting among NSE-listed firms.

Research Hypotheses

H₀₁: Liquidity signals have no significant effect on aggressive accounting among NSE-listed firms.

H₀₂: Financial leverage signals have no significant effect on aggressive accounting among NSE-listed firms.

H₀₃: Profitability signals have no significant effect on aggressive accounting among NSE-listed firms.

H₀₄: Operational efficiency signals have no significant effect on aggressive accounting among NSE-listed firms.

H₀₅: Corporate governance practices have no significant moderating effect on the relationship between financial distress signals and aggressive accounting among NSE-listed firms.

4. Literature Review

2.1 Theoretical Framework

Positive Accounting Theory

Positive Accounting Theory (PAT), developed by Watts and Zimmerman (1986), provides one of the most influential explanations for managerial accounting choices. The theory suggests that managers select accounting methods that maximize personal utility while responding to contractual and market pressures. PAT argues that firms experiencing financial distress are more likely to manipulate accounting information to avoid covenant violations, maintain investor confidence, and protect managerial compensation (Zhafir, & Subroto, 2024).

The bonus plan hypothesis, debt covenant hypothesis, and political cost hypothesis collectively explain why financially distressed firms may engage in aggressive accounting. Under the debt covenant hypothesis, highly leveraged firms have incentives to inflate earnings in order to avoid technical default (Nasution, Putri, Muda, & Ginting, 2020). This theoretical perspective provides a strong foundation for examining the relationship between financial leverage and aggressive accounting among NSE-listed firms.

Trade-Off Theory

Trade-Off Theory posits that firms determine their optimal capital structure by balancing the benefits of debt financing against the costs associated with financial distress. Although debt provides tax advantages, excessive leverage increases bankruptcy risk and financial pressure (Ai et al., 2021).

As leverage increases, managers may experience greater pressure to satisfy creditors and avoid covenant violations. Consequently, firms with high debt burdens may resort to aggressive accounting practices to present stronger financial performance (Ai et al., 2021). This theory therefore provides a useful explanation for the expected relationship between leverage signals and aggressive accounting.

Pecking Order Theory

Pecking Order Theory suggests that firms prefer internal financing over external financing because of information asymmetry and financing costs. According to Myers and Majluf (1984), firms first utilize retained earnings, then debt financing, and finally equity financing.

Declining profitability reduces internally generated funds and forces firms to seek external financing. Managers may therefore manipulate earnings to preserve investor confidence and reduce the cost of capital (Emmanuel, 2023). The theory supports the expectation that profitability signals significantly influence aggressive accounting behavior.

Credit Risk Theory

Credit Risk Theory explains how firms experiencing difficulties in meeting financial obligations face increasing borrowing costs and reduced access to credit. Operational inefficiencies, weak receivables management, and liquidity challenges increase credit risk and may motivate managers to engage in aggressive accounting practices aimed at improving perceived creditworthiness (Saeed, & Donkoh, 2026).

Risk and Return Theory

Risk and Return Theory argues that investors require higher expected returns to compensate for increased risk. Firms experiencing liquidity constraints or financial distress may therefore attempt to reduce perceived risk through aggressive financial reporting practices. This theory provides additional justification for examining liquidity as a predictor of aggressive accounting.

2.2 Conceptual Framework

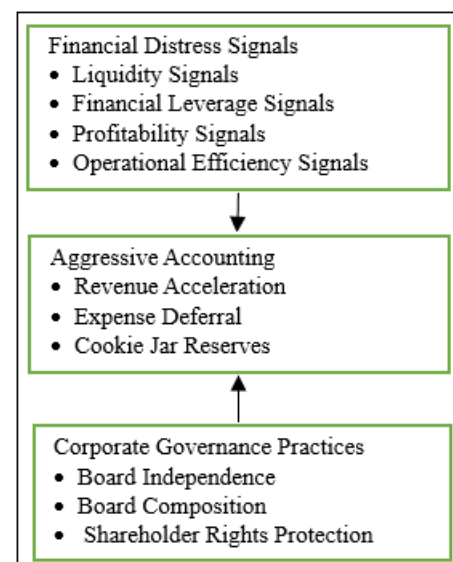


Figure 1: Conceptual framework of the study.

Empirical Review

Empirical evidence indicates that liquidity constraints increase incentives for earnings management and financial statement manipulation (Dwiantari & Artini, 2021). Highly leveraged firms are more likely to engage in aggressive accounting to avoid covenant breaches and preserve borrowing capacity (Draief & Chouaya, 2022).

Studies have also found that declining profitability motivates managers to inflate earnings to satisfy investor expectations and maintain market value (Kamau, 2023). Operational inefficiencies may exacerbate financial distress and increase managerial incentives to manipulate reported performance (Yohannes, 2021).

Corporate governance mechanisms, particularly board independence and shareholder protection, have been shown to reduce opportunities for earnings manipulation. However, evidence regarding their moderating role remains mixed (Sewe et al., 2024; Oreshile et al., 2025).

5. Research Methodology

The study adopted a mixed-methods research design incorporating both primary and secondary data (Battista, & Torre, 2023). The target population consisted of all firms listed at the NSE. Data were collected using structured questionnaires administered to finance managers, auditors, accountants, and board members, supplemented by financial statement data covering a five-year period.

Reliability was assessed using Cronbach's alpha, while validity was evaluated using the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity. The inferential analysis employed correlation analysis, multiple regression, and moderated regression analysis.

The moderated regression model was specified as:

$$AA = \beta_0 + \beta_1 LQ + \beta_2 LEV + \beta_3 PROF + \beta_4 OE + \beta_5 CGP + \beta_6 (FDS \times CGP) + \varepsilon$$

where AA represents aggressive accounting and CGP represents corporate governance practices.

Sampling Technique and Size

Stratified random sampling technique was used to ensure proportional representation of NSE listed companies across the various sectors. Because the target population consisted of diverse businesses across several industries, stratified sampling was employed to increase representativeness and decrease sample error (Creswell & Creswell, 2018; Saunders, Lewis, & Thornhill, 2019). Purposive sampling was employed to choose finance managers, accountants, and internal auditors, as they play a direct role in financial reporting, company governance, and financial decision-making. A sample size of 330 respondents was determined using Yamane (1967) sample size determination formula from a population of 1,900 respondents from 64 NSE-listed firms. Fifty-five (55) companies met the inclusion criteria for analysis. The sample size was considered to be sufficient to ensure adequate statistical power in multivariate analyses and to enhance the external validity of the findings (Hair et al., 2022).

Measuring Variable

The predictor variable consisted of indicators of financial distress, assessed using financial ratios extracted from audited financial accounts and perceptual metrics gathered via questionnaires. Liquidity indicators were assessed using the Quick Ratio, Current Ratio and Cash Ratio. The indicators of financial leverage were assessed using the Debt-to-Equity

Ratio, the Debt Ratio, and the Debt to EBITDA Ratio. The signals of profitability are: Return on Assets, Gross Profit Margin and Net Profit Margin. The indicators of operational efficiency were assessed by Turnover in Payables, Receivables, and Asset Utilization. Corporate governance practices were used as a moderating variable and measured board independence, board composition and shareholder rights protection. Aggressive accounting was used as an outcome variable and measured indicators relating to cookie jar reserves, accelerated revenue recognition and deferred expense recognition. These measures are adapted from prior empirical studies and accounting literature to ensure construct validity and comparability with prior research (Hair et al., 2022, Amalia et al., 2024; Wiśniewska et al., 2024). A five-point Likert scale, with 1 denoting "strongly disagree" and 5 denoting "strongly agree," was used to gauge perceptual reactions. Data on financial ratios for the research period came from audited annual reports.

Operational definitions of key constructs

Aggressive accounting refers to the application of accounting judgment within GAAP or IFRS to present an improved financial status through premature revenue recognition, expense deferral, and reserve manipulation (Almutairi, 202; Mlawu, 2026).

Corporate governance practices encompass frameworks and systems that enhance accountability, transparency, and efficient oversight via board autonomy, board structure, and safeguarding shareholder rights (OECD, 2023).

Financial distress signals are financial indications, such as liquidity problems, excessive leverage, declining profitability, and diminishing operational efficiency, that provide early warning of a company's declining financial performance (Cindik & Armutlulu, 2021; Nguyen et al., 2024).

6. Research Findings and Discussion

Response Rate

The study achieved a satisfactory response rate that exceeded the minimum threshold recommended for survey-based research. According to Matofari et al., (2024), response rates above 50% are adequate for statistical analysis, while rates exceeding 70% are considered very good. The achieved response rate therefore provided sufficient representation of the target population and enhanced the reliability and generalizability of the findings.

Reliability and Validity Analysis

Prior to hypothesis testing, the study assessed the reliability and validity of the measurement instruments. Reliability was evaluated using Cronbach's alpha coefficients, while construct validity was examined using factor analysis procedures. The Kaiser-Meyer-Olkin (KMO) values exceeded the minimum acceptable threshold of 0.50 for all study constructs, while Bartlett's Test of Sphericity was statistically significant ($p < .001$), confirming that the data were suitable for factor analysis. These results demonstrated that the measurement scales possessed adequate internal consistency and construct validity for subsequent inferential analyses.

Diagnostic Tests

A series of diagnostic tests were conducted to ascertain compliance with classical regression assumptions.

Normality

The Kolmogorov-Smirnov test indicated that the data approximated a normal distribution. Consequently, the assumption of normality was satisfied, thereby supporting the application of parametric statistical techniques.

Multicollinearity

Variance Inflation Factor (VIF) values for all independent variables were below the critical threshold of 10. This finding confirmed the absence of severe multicollinearity among predictor variables and suggested that each predictor contributed unique explanatory information to the regression model.

Heteroscedasticity

The Breusch-Pagan test revealed no significant heteroscedasticity. Therefore, the assumption of homoscedasticity was met, indicating that the variance of the residuals remained constant across observations.

Autocorrelation

Durbin-Watson statistics fell within the acceptable range of 1.5 to 2.5, suggesting that autocorrelation was not a concern in the study.

Linearity

Scatterplots and residual analyses demonstrated linear relationships between the predictor variables and aggressive accounting, thereby satisfying the linearity assumption.

Collectively, the diagnostic tests confirmed the appropriateness of the data for multiple regression analysis.

Correlation Analysis

Pearson correlation analysis indicated significant positive associations between liquidity signals, financial leverage signals, profitability signals, and aggressive accounting. Operational efficiency exhibited a weak and statistically insignificant association with aggressive accounting.

The correlation results provided preliminary evidence supporting the existence of relationships between financial distress indicators and aggressive accounting behavior, thereby justifying the use of regression analysis to establish causal effects.

Multiple Regression Analysis

To evaluate the influence of financial distress signals on aggressive accounting, a multiple regression model was estimated.

Model Fitness

Table 1: Model Summary for the Effect of Financial Distress Signals on Aggressive Accounting

Model	R	R ²	Adjusted R ²	Std. Error of Estimate
1	.801	.641	.636	.1846

Note. Dependent variable = Aggressive Accounting. Predictors: Liquidity Signals, Financial Leverage Signals,

Profitability Signals, and Operational Efficiency Signals. Financial distress signals explain 64.1% of the variation in aggressive accounting.

The regression model produced an R value of 0.801 and an R² value of 0.641, indicating that financial distress signals jointly explained 64.1% of the variation in aggressive accounting practices among NSE-listed firms. The adjusted R² value of 0.636 further confirmed that the model possessed substantial explanatory power even after adjusting for the number of predictors included in the model.

Table 2: ANOVA Results for the Effect of Financial Distress Signals on Aggressive Accounting

Source	Sum of Squares	df	Mean Square	F	p
Regression	9.945	4	2.486	122.309	<.001
Residual	5.570	274	.020		
Total	15.515	278			

Note. Dependent variable = Aggressive Accounting. The regression model was statistically significant, $F(4,274) = 122.309$, $p < .001$.

The ANOVA results revealed that the model was statistically significant ($F = 122.309$, $p < .001$), implying that the independent variables collectively exerted a significant influence on aggressive accounting.

These findings suggest that financial distress signals constitute important determinants of aggressive accounting behavior among listed firms in Kenya.

Regression Coefficients

Table 3: Regression Coefficients for the Effect of Financial Distress Signals on Aggressive Accounting

Predictor	B	SE	β	t	p
Constant	.386	.094	—	4.106	<.001
Liquidity Signals	.173	.034	.255	5.032	<.001
Financial Leverage Signals	.270	.066	.223	4.075	<.001
Profitability Signals	.472	.058	.420	8.188	<.001
Operational Efficiency Signals	.014	.033	.020	.427	.670

Note. Dependent variable = Aggressive Accounting. Profitability signals had the strongest influence on aggressive accounting ($\beta = .420$).

The estimated regression equation was:

$$AA = 0.386 + 0.173LS + 0.270FL + 0.472FP + 0.014OE$$

The results indicate that liquidity signals exerted a positive and statistically significant influence on aggressive accounting ($\beta = .255$, $B = .173$, $p < .001$). This finding implies that changes in liquidity conditions significantly affect managerial reporting behavior. Firms experiencing liquidity challenges may engage in earnings management practices to conceal financial weaknesses and reassure stakeholders.

Financial leverage signals also demonstrated a positive and statistically significant effect on aggressive accounting ($\beta = .223$, $B = .270$, $p < .001$). This finding supports the proposition that highly leveraged firms face greater pressure

to meet debt obligations and covenant requirements, thereby increasing incentives for accounting manipulation.

Profitability signals emerged as the strongest predictor of aggressive accounting ($\beta = .420$, $B = .472$, $p < .001$). This finding suggests that profitability pressures significantly influence managerial decisions regarding financial reporting. Managers may manipulate earnings to maintain profitability targets and preserve investor confidence.

Conversely, operational efficiency signals exhibited a positive but statistically insignificant relationship with aggressive accounting ($\beta = .020$, $B = .014$, $p = .670$). This finding indicates that operational efficiency does not independently explain variations in aggressive accounting behavior among NSE-listed firms.

Moderating Effect of Corporate Governance Practices

Hierarchical moderated regression analysis was employed to evaluate whether corporate governance practices moderated the relationship between financial distress signals and aggressive accounting.

Moderated Model Fitness

Table 4: Hierarchical Regression Model Summary for the Moderating Effect of Corporate Governance Practices

Model	R	R ²	Adjusted R ²	Std. Error
Model 1 (Direct Effects)	.801	.641	.636	.1846
Model 2 (Moderated Model)	.851	.725	.716	.1470

Note. Model 2 includes Corporate Governance Practices and interaction terms. The inclusion of the moderator increased explanatory power from 64.1% to 72.5% ($\Delta R^2 = .084$).

The moderated model generated an R^2 value of 0.725 and an adjusted R^2 value of 0.716. The inclusion of corporate governance practices and interaction terms increased explanatory power by 8.4%, from 64.1% to 72.5%.

The moderated model was statistically significant ($F = 78.798$, $p < .001$), indicating that the combined effects of financial distress signals, corporate governance practices, and interaction terms significantly explained variations in aggressive accounting.

Table 5: ANOVA Results for the Moderating Effect of Corporate Governance Practices

Model	Sum of Squares	df	Mean Square	F	p
Model 1 Regression	9.945	4	2.486	122.309	<.001
Model 1 Residual	5.570	274	.020		
Model 2 Regression	11.248	9	1.250	78.798	<.001
Model 2 Residual	4.267	269	.016		
Total	15.515	278			

Note. Both models were statistically significant. Model 2 demonstrated improved explanatory power after introducing corporate governance practices and interaction terms.

Table 6: Moderated Regression Coefficients for Corporate Governance Practices and Aggressive Accounting

Predictor	B	SE	β	t	p
Constant	-4.762	3.326	—	-1.432	.153
Liquidity Signals	.327	.421	.480	.776	.438
Financial Leverage Signals	1.556	.362	1.285	4.300	<.001
Profitability Signals	.384	.182	.341	2.110	.018
Operational Efficiency Signals	-.015	.412	-.021	-.036	.971
Corporate Governance Practices	1.878	.790	2.198	2.376	.018
Liquidity $\times$ CGP	-.035	.099	-.278	-.356	>.05
Leverage $\times$ CGP	-.322	.160	-.490	-2.013	>.05
Profitability $\times$ CGP	.061	.160	.379	.705	>.05
Operational Efficiency $\times$ CGP	.008	.097	.049	.079	.937

Note. Corporate governance practices had a significant direct effect on aggressive accounting ($B = 1.878$, $p = .018$). However, all interaction terms were statistically insignificant, indicating no moderation effect.

Moderated Regression Results

Financial leverage remained a significant predictor of aggressive accounting ($B = 1.556$, $p < .001$), while profitability also retained significance ($B = 0.384$, $p = .018$).

Liquidity signals lost statistical significance following the introduction of the moderator ($p = .438$), while operational efficiency remained insignificant ($p = .971$).

Corporate governance practices demonstrated a positive and statistically significant direct effect on aggressive accounting ($B = 1.878$, $p = .018$). This finding suggests that governance structures independently influence financial reporting behavior.

However, all interaction terms between financial distress signals and corporate governance practices were statistically insignificant ($p > .05$). Consequently, corporate governance practices did not significantly moderate the relationship between financial distress signals and aggressive accounting.

Hypothesis Testing

Table 7: Summary of Hypothesis Testing

Hypothesis	Variable	p-value	Decision
H ₁	Liquidity Signals $\rightarrow$ Aggressive Accounting	.438	Not Supported
H ₂	Financial Leverage Signals $\rightarrow$ Aggressive Accounting	<.001	Supported
H ₃	Profitability Signals $\rightarrow$ Aggressive Accounting	.018	Supported
H ₄	Operational Efficiency Signals $\rightarrow$ Aggressive Accounting	.971	Not Supported
H ₅	Corporate Governance Moderation Effect	>.05	Not Supported

The hypothesis testing results revealed mixed outcomes.

The hypothesis regarding liquidity signals was not supported in the moderated model ($p = .438$). Therefore, liquidity signals did not significantly influence aggressive accounting after accounting for governance effects.

The hypothesis regarding financial leverage signals was supported ($p < .001$), indicating that leverage significantly influences aggressive accounting.

The profitability hypothesis was also supported ($p = .018$), confirming that profitability pressures significantly affect aggressive accounting.

The operational efficiency hypothesis was not supported ($p = .971$), implying that operational efficiency does not significantly influence aggressive accounting.

Finally, the hypothesis concerning the moderating effect of corporate governance practices was not supported because all interaction terms were statistically insignificant.

7. Discussion of Findings

The strong effect of financial leverage of the study provides a support for the Trade-Off Theory which states that firms with high leverage are more inclined to use aggressive accounting practices to avoid breaching covenants and to get external finance. Similarly, the significant impact of profitability is consistent with Pecking Order Theory and suggests that low profitability can increase the motivation for manipulating financial statements to present better performance. The impact of liquidity is diminished when the moderated model is included, implying that the effect of liquidity is primarily due to overall governance and financial reporting norms. The operational efficiency construct showed little influence, meaning that excellence in operations does not inevitably lead to aggressive accounting. Moreover, the non-significant moderating effect of corporate governance procedures shows that the main role of governance is direct monitoring and not mediating between aggressive accounting techniques and financial crisis indicators. To put it simply, the data indicate that financial leverage and profitability are key factors that drive aggressive accounting methods of the NSE listed companies. This highlights the significance of financial structure and performance requirements to managers' reporting methods.

8. Conclusion

The study concludes that financial leverage and profitability are the principal financial distress indicators associated with aggressive accounting among firms listed on the Nairobi Securities Exchange. Although corporate governance practices significantly influence aggressive accounting directly, they do not significantly moderate the relationship between financial distress signals and aggressive accounting. These findings suggest that financial pressure remains a stronger driver of aggressive reporting than governance mechanisms under distressed conditions. Strengthening financial oversight, prudent debt management, and effective

governance practices can contribute to improved financial reporting quality and greater investor confidence.

9. Recommendations

- 1) NSE-listed firms should maintain prudent debt levels to reduce financial pressure and incentives for aggressive accounting.
- 2) Management should strengthen profitability monitoring systems and adopt sustainable performance strategies.
- 3) Regulators should intensify surveillance of highly leveraged firms and those exhibiting declining profitability.
- 4) Firms should strengthen board independence, board composition diversity, and shareholder protection mechanisms.
- 5) The CMA should enhance enforcement of corporate governance guidelines and financial disclosure requirements.
- 6) Future studies should examine industry-specific governance effects and longitudinal governance-performance relationships.

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