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Influence of Financial Reporting Quality on Bank Performance in Tanzania

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Abstract

This paper explores how Financial Reporting Quality (FRQ) affects the performance of banks in Tanzania. The analysis centres on three key reporting attributes relevant information, financial reporting reliability and financial report clarity drawing on principles from Decision Usefulness Theory. The study uses information collected from 30 commercial banks, combining survey feedback with data extracted from their 2023 audited financial statements. Multiple regression analysis was employed in examining the relationship between FRQ and BP. Findings reveal that relevant information, financial reporting reliability and financial report clarity have positively affect the performance of banks. This suggests that when financial information is timely, credible, and relevant, overall bank performance improves. The study further recommends that the Bank of Tanzania, through the Banking and Financial Institutions (Disclosure) Regulations of 2014, strengthen voluntary disclosure requirements for unlisted banks as a way to support better performance across the sector.

Keywords: Financial Reporting Quality, Bank Performance, Relevant information, Financial Reporting Reliability, Financial Report Clarity, Return on Equity

Introduction

Bank performance remains a central issue because of the critical role banks play in supporting economic growth and development (Swai et al., 2016). The financial outcomes reported by banks whether profits or losses affect shareholders, influence national economic stability, and shape perceptions among international investors (Abakasanga et al., 2019). By enabling transactions, mobilizing savings, and allocating credit, banks act as essential intermediaries that channel short-term deposits into long-term productive investments (Adeyemo et al., 2017). Failures within the sector can therefore disrupt economic activity and pose risks to households, firms, and government operations, highlighting the need for continuous assessment of bank performance. Financial performance indicators presented in banks' annual reports are fundamental tools for stakeholders such as investors, regulators, and managers (Abakasanga et al., 2019). These disclosures support informed decision-making and illustrate how bank activities interact with stakeholder expectations (Ahmed, 2020), aligning with the principles of decision usefulness theory. Financial reporting entails the systematic preparation and presentation of past and current financial information (Al-Dmour et al., 2018) with the purpose of providing users with reliable and relevant insights for judgement and planning (Asyik et al., 2023). When reporting standards are upheld, transparency improves, confidence strengthens,

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and performance is likely to benefit (Ahmed, 2020). Conversely, weaknesses in reporting quality have been linked to major corporate failures such as WorldCom, Tesco, and BT Italia (CNBC, 2017). These well-publicised cases illustrate how poor disclosure and weak oversight can undermine financial system stability, reinforcing the importance of examining reporting quality, particularly in emerging markets.

The banking industry is experiencing ongoing transformation driven by globalisation, regulatory shifts, and technological changes. Compliance with anti-money-laundering standards, data protection rules, and prudential regulations has increased operational complexity and costs, which may influence performance outcomes (Asyik et al., 2023; Nouaili et al., 2015). Although previous studies have analysed various determinants of bank performance (Abakasanga et al., 2019; Assfaw, 2018; Marozva, 2015), far fewer have examined the broader influence of financial reporting quality on performance. Existing international evidence presents mixed conclusions. Some studies, such as Ahmed (2020) and Martínez-Ferrero (2014), argue that high-quality reporting enhances transparency and boosts investor confidence, improving performance. In contrast, Rathnayake et al. (2021) found insignificant effects, likely due to contextual and methodological variations. Other studies have excluded the banking sector (Lyezia & Katamba, 2024; Rathnayake et al., 2021) or generated inconsistent findings on leverage performance relationships (Amjed, 2011). Additionally, several studies omit important bank performance indicators such as earning power, leverage, liquidity risk, and return on equity (Agboola & Salawu, 2012; Alsmady, 2022). These inconsistencies underscore the need for country-specific research, particularly in Sub-Saharan Africa, where financial markets, ownership models, and disclosure practices differ from those in developed economies. The International Accounting Standards Board (International Accounting Standards Board (IASB), 2018) identifies several attributes of financial reporting quality, including relevance, faithful representation, clarity, timeliness, comparability, and disclosure. This study focuses on relevance, reliability, and clarity attributes traditionally associated with decision usefulness and the ability of users to interpret presented information (Ahmed, 2020; Bukenya, 2014).

In Tanzania, commercial banks serve as key institutions for financial intermediation (Asyik et al., 2023) but continue to face challenges such as high levels of non-performing loans, operational vulnerabilities, limited technological systems, and recurring mergers. A notable example is the 2020 statutory administration and later acquisition of China Commercial Bank (T) Ltd by National Microfinance Bank PLC due to capital inadequacies, revealing structural gaps reflective of broader governance and compliance issues in the sector. The Bank of Tanzania oversees the industry through regulatory frameworks issued between 2006 and 2022. Unlike many advanced economies, the Tanzanian banking landscape is characterised by a dominance of unlisted banks, varied ownership types, and evolving disclosure practices. These unique features make Tanzania a relevant and compelling context for exploring how financial reporting quality influences bank performance. This paper aims to assess the influence of financial reporting quality on bank performance in Tanzania, with an assumption that prior studies from Asia and Europe (Ahmed, 2020; Martínez-Ferrero, 2014) may not generalize to developing economies due to differing socio-economic contexts (Alfraih & Almutawa, 2014). Theoretically, this study contributes knowledge by demonstrating how the Decision Usefulness Theory can be used in the context of Tanzanian commercial banks. Empirically, the study fills a void in the prior research by examining the influence of financial reporting quality on bank

performance within the context of a developing country, Tanzania. This study, therefore, tests the impact of the three qualities namely: relevant information, financial reporting reliability, and financial report clarity, on bank performance within the specific socio-economic context of Tanzania. The paper is divided in sections as follows: apart from introduction, it has a review of relevant literature, research methodology, presentation of results and discussion, and finally, conclusions and policy implications.

Overview of Financial Reporting Quality

Financial reporting encompasses the collection and display of organization's past and contemporary financial data (Nurcholisah, 2016). According to IASB, 2018), financial reporting quality encompasses both financial and non-financial disclosures that are essential for informed decision-making. The quality of data showed in the organization's report determines the overall quality of financial reporting. Braam & Van Beest (2013) define quality of financial reporting as the faithfulness and credibility of the information communicated by a firm during the submission of reports. High-quality financial reports strengthen managerial judgment, improve investors' decision, and enhance stakeholder confidence in financial markets. As outlined in the International Accounting Standard Board-IASB (2018) conceptual framework and supported by Ahmed (2020), the fitness of financial data depends on its qualities. These characteristics include the fundamental qualities of relevance and reliability, along with the enhancing qualities of clarity, comparability, and timeliness. Relevance refers to the ability of financial information to influence users' decisions, particularly when it is made available within an appropriate timeframe **(**Siriyama & Norah, 2017**)**. Reliability focuses on presenting information that is complete, verifiable, and free from bias **(**Al-Dmour et al., 2018; Braam & Van Beest, 2013**)**. Financial report clarity relates to how clearly financial information is communicated, ensuring that reports are organised and expressed in a manner that users can interpret without unnecessary difficulty **(**Chalu, 2019**)**.

Several seminal studies in accounting have developed alternative proxies for measuring financial reporting quality using accrual-based or earnings-quality models. Examples include Basu (1997); Dechow and Dichev (2002) and Hribar & Collins (2002), who operationalised FRQ through discretionary accruals, accrual estimation errors and asymmetric timeliness of earnings. However, these approaches are heavily dependent on secondary data and may not adequately capture contextual and perceptual aspects of quality in developing economies. The present study adopts a perception-based approach using Likert-scale measures to capture managerial perspectives on the quality of financial reporting attributes. This approach is appropriate in the Tanzanian context, where consistent accrual data are often unavailable, and perceptions of reporting practices provide meaningful insights into decision usefulness. This study has therefore selected relevance and reliability as the primary indicators of financial reporting quality, as they enhance the usefulness of information for decision-makers (Ahmed, 2020). Timeliness is considered part of relevance, as information must be provided promptly to support effective decisions. Financial report clarity is also included, assuming that users of financial reports have sufficient knowledge to interpret and compare financial data accurately (Bukenya, 2014**)**. In this study, comparability is treated as an element of financial report clarity, allowing users to assess and contrast financial performance across different banks.

Looking beyond Tanzania, research from other African countries offers useful comparative insights. For instance, Waweru and Riro (2013**)** found that strong corporate governance

improves the credibility of financial reports among firms in Kenya. In Uganda, Bukenya (2014) highlighted issues of biased reporting on organizational performance in Nakawa Division. Similarly, Boateng (2020) demonstrated in Ghana that bank governance and disclosure practices interact to affect financial stability. These findings underscore the importance of institutional and regulatory contexts in shaping reporting quality, emphasizing the need for a focused study in Tanzania, where disclosure standards are still developing.

Overview of Bank Performance

Banks are central to the functioning of modern financial systems, and their performance depends on both internal management efficiency and external economic conditions (Ahmed, 2020). The European Central Bank (2010) defines bank performance as the ability to maintain financial stability while meeting solvency requirements and complying with regulations. Similarly, Onyekwelu et al. (2018) describe bank performance in terms of sustained profitability and overall financial soundness. Achieving strong performance requires bank management to balance growth, risk, and returns using risk-adjusted performance measures. Evaluating performance therefore involves understanding the trade-offs between costs, earnings, and associated risks. Previous studies have measured bank performance using indicators such as Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), and Tobin's Q (Marozva, 2015; Onyekwelu et al., 2018). The CAMEL approach has also been used for performance assessment (Magoma et al., 2022). In this study, ROE is used as the key measure, as it reflects how efficiently banks generate profits from shareholders' funds a metric widely applied in evaluating performance in developing economies (Moussu & Petit-Romec, 2017).

Theoretical Perspective of the Study

This research is guided by the Decision Usefulness Theory, first introduced in 1955 (Eliwa et al., 2019). The theory posits that financial information has value only if it supports decision-making among users (Soyinka et al., 2017). It forms the foundation of the accounting conceptual framework, highlighting qualitative attributes such as relevance, reliability, comparability, timeliness, verifiability, and clarity that enhance the usefulness of financial reports (Ahmed, 2020). Dandago &Hassan (2013) also note that for information to be useful, it must be relevant, reliable, and presented in a way that allows comparability and clear understanding. While the Decision Usefulness Theory is often applied to listed firms and capital markets (Dandago & Hassan, 2013; Soyinka et al., 2017), this study applies it to the Tanzanian banking sector. Here, financial reporting not only informs investment and regulatory decisions but also fosters transparency and strengthens stakeholder confidence. This theoretical foundation establishes a clear link between financial reporting quality and bank performance, highlighting the role of high-quality reports in supporting sound decision-making and enhancing performance.

Empirical Literature

Financial Reporting Quality and Bank Performance

From the decision usefulness perspective, high-quality financial information is characterized by attributes such as relevance, reliability, timeliness, comparability, verifiability, and understandability (Braam & Van Beest, 2013; Chalu, 2019). Quality financial data serves as an essential tool for assessing organizational performance (Lyezia & Katamba, 2024; Rathnayake et al., 2021). According to the IASB (2018), the primary purpose of financial reports is to provide information that is useful to stakeholders including investors, suppliers, and the general public for informed decision-making.

Accordingly, the decision usefulness perspective highlights the primary goal of reporting quality is to furnish financial data which is relevant, reliable, and understandable to enable stakeholders make informed economic decisions, suggesting that better quality of reports should enhance performance through improved transparency and accountability. Previous empirical research for example, King'wara (2015) and Sohail (2019) found that financial reporting quality has a favourable consequence on organization performance. However, the link between quality of financial reporting and organization performance remains context-dependent, as findings vary across countries and sectors. Accounting literature exploring the effect of financial reporting quality on firm performance is still evolving and can be tracked down to the research of Al-Dmour et al. (2018), who assessed the link between quality of reports and non- financial firms in Jordan. The study found that faithful representation, relevance, and clarity were the crucial qualities associated with firm's performance.

Also, Ahmed (2020**)** conducted a study examining financial reporting quality in the Gulf banking sector. The study findings indicated that a positive relationship between qualities of: relevance, reliability, prudence, and bank performance. Similarly, Abakasanga et al. (2019), reported that relevance and timeliness had a significant positive impact on bank performance Conversely, Azeagba (2018) found that earnings management insignificant impact on firm's performance. Additionally, Rathnayake et al. (2021) discovered that t the relationship between financial reporting quality and performance indicators were insignificant, the finding which is in consistent with Lyezia & Katamba (2024), who also found that the link between financial reporting quality and performance of the firms was insignificant. These mixed results reflect competing strands of literature, where some studies highlight the benefits of transparent reporting for performance enhancement, while others find that excessive emphasis on compliance or rigid verification can limit managerial flexibility and innovation. Hence, the relationship between financial reporting quality and bank performance remains underexplored, particularly in African banking systems. Abakasanga et al. (2019) and Ahmed (2020) reported favourable associations, but there is limited empirical evidence from Sub-Saharan Africa-Tanzania. This study explores how the dimensions of financial reporting quality relevance, reliability, and clarity affect the performance of commercial banks in Tanzania, using both primary survey data and secondary financial records.

Relevance and Bank Performance

Financial information is considered relevant if it can influence decisions and is delivered in a timely manner **(**Siriyama & Norah, 2017**)**. Prior research has generally found that relevant information positively impacts firm performance, especially in non-financial sectors **(**Al-Dmour et al., 2018**)**. However, some scholars argue that relevant information can be difficult to measure because it varies across firms **(**Jaballah et al., 2014**)**. In the context of Tanzanian banks, relevant financial information helps managers and regulators assess loan portfolio risks, profitability, and overall decision-making more effectively. Many previous studies focused on non-financial firms, limiting their applicability to banks. This study assumes that higher-quality, relevant information supports improved bank performance. Accordingly, the first hypothesis is:

H1: Relevant information has a positive effect on bank performance.

Financial Reporting Reliability and Bank Performance

Financial reporting reliability refers to the completeness, neutrality, verifiability, and accuracy of financial information (Braam & Van Beest, 2013). The IASB (2018) notes that estimates and assumptions may affect financial reporting reliability, but the attribute remains crucial for decision-making. Yurisandi & Puspitasari (2015) suggest that reliability in financial reporting can decline over time, though not specifically in banking. Martínez-Ferrero and García-Sánchez (2017) found that firms producing reliable financial reports tend to benefit from lower borrowing costs, which may improve performance. At the same time, overemphasis on verification may slow management responses, particularly in developing economies. While theoretically significant, the practical impact of reliability on bank performance may vary. Based on this reasoning:

H2: Financial reporting reliability has a positive effect on bank performance.

Financial Report Clarity and Bank Performance

Financial report clarity concerns presenting financial information clearly and in a structured way (IASB, 2018). Bukenya (2014) highlighted the importance of simple, clear language in financial reports, while Chalu (2019) emphasized clarity in data presentation for better comprehension. Although these studies do not directly link financial report clarity to bank performance, Ahmed (2020) observed a positive relationship in banking contexts. In Tanzania, financial reports that are understandable can boost stakeholder confidence and help shareholders and regulators exercise oversight, thereby improving performance. Nonetheless, oversimplifying data can reduce its usefulness to analysts or auditors, so a balance between clarity and detail is essential. Accordingly:

H3: Financial report clarity has a positive effect on bank performance.

Study Methodology

The study population comprised all commercial banks and financial institutions operating in Tanzania (see Table 1). Given the manageable size of the population, a census approach was used. Data were successfully collected from 30 commercial banks, representing 65.2% of the total institutions. Commercial banks were prioritized due to their prominence in the Tanzanian banking sector, limited responses from other financial institutions, and their critical role in promoting economic growth in developing countries (Swai et al., 2016). To enhance data reliability, structured questionnaires were administered directly to senior management and financial reporting officers, ensuring that responses reflected institutional practices rather than individual perceptions. This method ensured sufficient representation and allowed meaningful statistical analysis. Although the sample size of 30 is relatively small, it satisfies the minimum requirements for multiple regression analysis with up to five predictors. As noted by Wolf et al. (2013), sample sizes ranging from 30 to 460 are considered acceptable for generalization in quantitative studies. This approach allowed for a representative assessment of financial reporting practices and their influence on bank performance while addressing potential non-response bias from smaller financial institutions.

Table 1: Population and Sample Size

Banks and Financial Institutions	Population	Actual Response
Commercial banks	34	28
Development banks	2	-
Microfinance banks	5	2
Community banks	5	-
Total	46	30

Source: Author, 2023

The unit of analysis was the commercial bank itself, while the unit of inquiry was the Director General of each bank. In cases where the Director General was unavailable, finance managers were approached due to their expertise in financial and banking operations. Guided by positivism and a deductive reasoning approach, the study employed an explanatory cross-sectional research design to examine the relationship between quality of financial reports and due to constraints in time and resources, data were collected at a single point in time. The use of a cross-sectional design aligns with prior researches on financial reporting quality (Al-Aamri et al., 2022; Lyezia & Katamba, 2024) and provides an empirical snapshot of relationships across institutions, although it limits causal inference. The study used both primary and secondary data. Primary data were collected through a structured questionnaire : captured general firm information such as years of operation, number of branches, number of employees, number of ATMs, stock market listing status, and metrics of relevant information, financial reporting reliability, and finacial report clarity) based on the study of Al-Dmour et al. (2018) and IASB (2018). Replies were written down on Likert scale varying from 1 (strongly disagree) to 5 (strongly agree). The technique is widely recognized for capturing effectively the respondents' perceptions (Saunders et al., 2019) and achieving acceptable response rates (Sachdev & Verma, 2004). The Likert-scale items were adapted from prior validated instruments and refined through expert consultation to ensure face and content validity. The five scales of five points were used because an increase in the scales above five points does not improve the reliability of ratings (Elmore & Beggs, 1975).

Before full deployment, the questionnaire was pre-tested for understanding and was reviewed by two academic experts and two banking practitioners to verify relevant information and clarity (Heale & Twycross, 2015). Construct reliability was evaluated using Cronbach's alpha, with all dimensions exceeding the recommended threshold of 0.70, indicating good internal consistency. Questionnaires were distributed using a drop-and-pick method by trained research assistants, which helped reduce non-response bias (Mkenda et al., 2023). To further minimize potential common method bias, several procedural precautions were applied, including guaranteeing respondent anonymity, varying the order of questions, and combining primary survey data with secondary data sources (Wakaisuka, 2017). In addition, a Harman's single-factor test was conducted to ensure that no single factor dominated the variance. Secondary data on bank performance were collected from 2023 annual financial reports and official filings. These were cross-checked against the Bank of Tanzania database to ensure accuracy. Such secondary data were considered reliable due to their formal verification and credibility (Church, 2001).

Measurement of Variables

Dependent Variable

Bank performance was measured as the Return on Equity (ROE), calculated as net income divided by shareholders' equity. ROE was chosen because it reflects how efficiently banks utilize shareholders' funds to generate profit and serves as a standard indicator of financial performance and soundness (Moussu & Petit-Romec, 2017).

Independent Variable

Financial reporting quality was the primary independent variable, assessed across three dimensions: Relevance – the extent to which financial information influences decision-making and is delivered timely (Siriyama & Norah, 2017). Reliability – the degree to which financial information is complete, verifiable, and unbiased (Al-Dmour et al., 2018). Financial report clarity: presenting financial information clearly and concisely to facilitate user comprehension (Bukenya, 2014). Each dimension was measured using Likert-scale items. Composite indices were generated by calculating the mean score of all items within each dimension.

Control Variables

Two control variables were included to reduce potential confounding effects: Firm Leverage (FL) measured as the debt-to-equity ratio, reflecting its role in minimizing agency conflicts and potentially influencing reporting quality and bank performance (Waweru & Riro, 2013). Liquidity Risk (LR) measured as the ratio of liquid assets to demand liabilities, indicating the bank's ability to meet short-term obligations (Fathi, 2013).These controls helped isolate the direct effects of financial reporting quality on bank performance and mitigate model specification bias.

Model Specification

The study employed a multiple regression model to investigate the relationship between financial reporting quality and bank performance, incorporating the control variables to account for additional influences. The construct of financial reporting quality was measured by indicators: relevance, reliability, and clarity of information, while the dependent variable, bank performance, was measured by ROE. Two models were estimated: the first model was without control variables and the second incorporating control variables of firm leverage and liquidity risk to test the robustness of results. Multicollinearity was assessed through Variance Inflation Factors (VIF), with all values below the threshold value of 5, indicating acceptable levels. Diagnostic tests for heteroskedasticity (Breusch–Pagan test) and normality (Shapiro–Wilk test) were also conducted to ensure model validity.

Model 1: $Y_i = \beta_0 + \beta_1 \text{xi1} + \beta_2 \text{xi2} + \beta_3 \text{xi3} + \varepsilon$ for i = 1, 2, 3….n

Model 2:

Therefore, the relationship between financial reporting quality and bank performance (measured by ROE) under the control variables, firm leverage and liquidity risk of commercial banks, is modeled as follows:

Model 2: $ROE = \beta_0 + \beta_1 \text{xi1} + \beta_2 \text{xi2} + \beta_3 \text{xi3} + \beta 4 FLit + \beta 5 LRit + \varepsilon$

Where Yi represents the bank performance as dependent variable; xi1 represents latent variable relevance quality; xi2 represents latent variable reliability quality; xi3 represents latent variable financial report clarity; β_0 represents constant term; B_1, β_2 β_3, β_4, β_5, β_6, β_7 are the coefficients for the model slopes; and ϵ is the error term. Therefore, to address endogeneity concerns where better-performing banks may also report higher-quality information, the study also conducted robustness checks using residual diagnostics and alternative specifications. Standard errors were adjusted using robust estimation to account for potential heteroskedasticity.

Descriptive Statistics

Commercial Banks Profile

Commercial banks in Tanzania comprise branches, employees, ATMs, age and whether it is listed or unlisted in Tanzania. Among the sampled banks, 26.7% of commercial banks are listed, whereas73.3% are unlisted. This pattern indicates limited participation of Tanzanian banks in the capital market, reflecting the dominance of privately held institutions. Such ownership structures often limit incentives for disclosure, which can negatively affect the overall quality of financial reporting and transparency within the sector **(**Asyik et al., 2023**)**. Additionally, the distinction between listed and unlisted banks highlights governance differences, as listed banks are subject to more rigorous reporting oversight by both the Bank of Tanzania and the Dar es Salaam Stock Exchange. The sample of 30 commercial banks provides a substantial and representative coverage of the Tanzanian banking sector, capturing both major market players and smaller institutions. This ensures that the descriptive statistics reflect the population distribution accurately and support meaningful analysis of financial reporting practices.

Table 2: Description of Key Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity	30	-0.652	0.187	-0.223	0.231
Firm Leverage	30	0.004	0.543	0.141	0.122
Liquidity Risk	30	0.246	21.883	1.226	3.906
Relevant information (%)	30	40.000	85.710	60.571	10.909
Financial reporting reliability (%)	30	36.000	84.000	60.133	11.240
Financial report clarity (%)	30	40.000	80.000	61.583	10.890

Source: Calculated from the study data

Table 2 summarizes the key statistics for the study variables. Return on Equity (ROE), used as the performance metric, has a mean of -0.223 (SD = 0.231), indicating that most banks in the sample experienced negative profitability, with values ranging from -0.625 to 0.187. This variation points to performance differences potentially caused by operational inefficiencies, challenges in asset management, or broader macroeconomic conditions **(**Swai et al., 2016**)**. These results are consistent with Bank of Tanzania reports, which highlight persistent gaps in profitability between larger and smaller banks, especially after regulatory tightening and liquidity pressures **(**Bank of Tanzania, 2021**)**. The financial reporting quality variables relevant information, reliability, and clarity also show notable variation. Relevant information averages 60.57% (SD = 10.91), suggesting inconsistencies in providing decision-useful financial information. Financial reporting reliability follows a similar pattern, with a mean of 60.13% (SD = 11.24), reflecting differences in the completeness and credibility of reporting across

banks (Al-Dmour et al., 2018). Understand-ability scores slightly higher, at 61.58% (SD = 10.89), indicating that many banks present their financial information with reasonable clarity (Bukenya, 2014). The slight edge in understand-ability may reflect adherence to International Financial Reporting standards, though the relatively moderate averages across all three dimensions suggest uneven reporting practices that could benefit from stronger regulatory oversight and internal audit mechanisms.

For the control variables, firm leverage has a mean of 0.141 (SD = 0.122), indicating moderate use of debt, while liquidity risk is highly dispersed (Mean = 1.226, SD = 3.906, Max = 21.883), pointing to significant liquidity challenges for some banks (Marozva, 2015). This wide range emphasizes the structural difficulties smaller or less capitalized banks face in maintaining adequate liquidity, highlighting the importance of high-quality financial reports for timely risk assessment and managerial decision-making. Overall, the descriptive statistics indicate areas where Tanzanian banks differ in their financial reporting quality and operational performance. These patterns underscore the need to improve information relevance and reporting reliability in reporting and demonstrate the importance of financial stability and liquidity management. They also provide a foundation for regression analysis, helping to clarify the relationship between financial reporting quality attributes and bank performance.

Inferential Statistics

Assessment of Measurement Models, Assumptions, and Results

Before conducting regression analysis, key assumptions missing data, outliers, normality, linearity, and multicollinearity were evaluated. No major violations were detected, supporting the validity of proceeding with hypothesis testing. Further diagnostic tests were performed to assess model robustness. Heteroskedasticity was tested using the Breusch–Pagan test, and residual independence was verified via the Durbin–Watson statistic, both confirming the adequacy of the regression assumptions. Outliers were checked through standardized residuals, and no extreme values exceeding ±3.0 were found, indicating data stability. These checks ensure the reliability of the regression model and confirm that the assumptions of Ordinary Least Squares (OLS) estimation were met, allowing for valid interpretation of the coefficients..

Normality

Table 3 presents the results of the normality tests for ROE. The Kolmogorov–Smirnov test shows a slight deviation from normality ($p = 0.047$) at the 5% significance level, whereas the Shapiro–Wilk test is not significant ($p = 0.216$), indicating that the data is approximately normally distributed. Considering the small sample size ($n < 50$), the Shapiro–Wilk test provides a more reliable assessment. Additionally, visual inspection of the normal P–P plot and histogram shows that residuals are distributed symmetrically around zero, confirming that the normality assumption is met. These results indicate that the regression model is appropriate for inferential analysis, even though minor skewness exists in ROE.

Table 3: Normality of the Variable

Dependent variables	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Return on equity	0.160	30	0.047	0.954	30	0.216

Source: Calculated from the study data

Multicollinearity Test

Table 4 presents Pearson correlation coefficients among independent variables. A strong correlation exists between relevant information and reliability ($r = 0.772$, $p < 0.05$), raising multicollinearity concerns. In contrast, financial report clarity shows weak and non-significant correlations with both relevant information ($r = 0.243$, $p = 0.196$) and financial reporting reliability ($r = 0.214$, $p = 0.255$), indicating no serious multicollinearity among those dimensions. To further ensure reliability, variance inflation factors (VIF) were also checked (Table 5), all of which were below the commonly accepted threshold of 5, confirming that multicollinearity does not distort the regression results.

Table 4: Multi-collinearity Test

Variable		**Relevant information**	financial reporting **reliability**	**Financial report clarity**
Relevant information	Pearson Correlation	1	0.772**	0.243
	Sig. (2-tailed)		0	0.196
	N	30	30	30
Financial reporting reliability	Pearson Correlation	0.772**	1	0.214
	Sig. (2-tailed)	0		0.255
	N	30	30	30
Financial report clarity	Pearson Correlation	0.243	0.214	1
	Sig. (2-tailed)	0.196	0.255	
	N	30	30	30

Source: Calculated from the study data

Model 1: Without control variables

The initial regression model shows that both relevant information ($\beta = 0.034$, $p = 0.008$) and financial report clarity ($\beta = 0.131$, $p = 0.026$) significantly influence bank performance, whereas financial report clarity has a positive significant ($\beta = 0.610$, $p = 0.001$); as indicated in Table 5. These results, while reflecting some interrelatedness among variables, remain robust and are interpreted within the specific socio-economic context, where institutional practices and governance structures may affect the relationships between different dimensions of financial reporting quality and bank performance (Kaawaase et al., 2021).

Table 5: Multiple regression Models before incorporating control variables

ROE	**β**	**Std. Error**	**t**	**Sig.**	**95% CI**		**VIF**
					Lower	**Upper**	
Constant	1.202	0.421	2.855	0.008	-0.821	2.001	
Relevant information	0.034	0.012	2.87	0.008	-0.002	1.920	1.562
Financial reporting	0.610	0.017	1.549	0.001	-0.010	1.30	2.804

reliability							
Financial report clarity	0.131	0.013	2.357	0.026	-1.23	1.012	4.475
Adjusted-R					0.65		
R-squared					0.42		

Source: Calculated from the study data

A two-tailed test was used to conservatively assess these relationships, reducing the risk of Type I error (false positives) while still confirming the hypothesized positive effects. Also, the model's R value (0.650) and R^2 value (0.420) indicate that the three financial reporting quality dimensions jointly explain about 42 percent of the variation in bank performance, which demonstrates a moderate level of explanatory power. This suggests that nearly half of the performance outcomes in Tanzanian banks can be attributed to variations in financial reporting quality. The positive coefficients for relevant information, financial reporting reliability and financial report clarity support the decision usefulness perspective. Diagnostic tests for Model 1 confirmed the absence of multicollinearity and heteroskedasticity, ensuring that the estimates are unbiased and efficient.

Model 2: After Incorporating Control Variables

Table 6 indicates a multiple regression model assessing the influence of financial reporting quality dimensions on Return on Equity (ROE) after the inclusion of firm-level control variables (firm leverage and liquidity risk). The model explains a substantial proportion of the variation in ROE, as indicated by an R^2-squared = 0.532 and an adjusted R^2 = 0.729, showing that both the reporting quality indicators and the control variables together significantly improve the explanatory power of the model compared to the model without controls. The constant term (β = 1.319, p = 0.004) is statistically significant, indicating the baseline level of ROE when all predictors are held constant. Relevant information quality (%) has a positive and significant effect on ROE (β = 0.013, p = 0.004), implying that improved relevance of financial information increases ROE, even after accounting for firm characteristics. Reliability (%) shows a strong positive and statistically significant effect on ROE (β = 1.017, p < 0.001), indicating that higher reliability in financial reporting substantially improves bank performance. Financial report clarity (%) also remains significant (β = 0.013, p = 0.020), suggesting that clearer and more easily interpreted financial information positively contributes to ROE even when control variables are included. By contrast, the control variables firm leverage (β = –0.187, p = 0.458) and liquidity risk (β = –0.005, p = 0.489) do not show a significant impact on ROE, implying that capital structure and liquidity levels do not significantly affect bank performance in this model. All VIF values are below 5, indicating lack of correlation among predictor variables (Hair et al., 2018).

Table 6: Multiple Regression Model after incorporating control variables

ROE	β	Std. Error	t	Sig.	95% CI		VIF
					Lower	Upper	
Constant	1.319	0.409	3.223	0.004	-0.706	2.439	
Relevant information	0.013	0.004	3.180	0.004	-0.011	1.029	3.081
Financial reporting reliability	1.017	0.004	4.245	0.000	-1.019	0.031	2.599
Financial report clarity	0.013	0.005	2.493	0.020	-0.005	0.037	2.570

Firm Leverage	-0.187	0.247	-0.754	0.458	-1.090	0.419	1.053
Liquidity Risk	-0.005	0.007	-0.703	0.489	-1.037	0.016	1.299
Adjusted-R				0.729			
R-squared				0.532			

Source: Calculated from the study data

Reliability and Validity Tests

A pilot test was conducted to ensure the questionnaire was reliable and effective. Internal consistency was measured using Cronbach's alpha, with values of 0.7 or higher considered acceptable (Shavelson, 2004). All financial reporting quality dimensions met this standard, as presented in Table 7. For validity, the questionnaire was pre-tested with 15 finance managers from the sampled banks. Their feedback was used to refine and confirm the suitability of the instrument for the main study.

Table 7: Reliability of Financial Reporting Quality Dimensions

FRQ	Cronbach's Alpha	Items number
Relevant information	0.769	7
Financial reporting reliability	0.723	5
Financial report clarity	0.794	8

Source: Calculated from the study data

In addition to assessing internal consistency, construct validity was examined using factor analysis. All questionnaire items loaded above 0.60 on their respective factors, demonstrating satisfactory convergent validity. Discriminant validity was supported by low cross-loadings between the dimensions. Content validity was ensured through expert review, confirming that the items aligned with the IASB (2018**)** conceptual framework for financial reporting. These checks indicate that the measures accurately captured the intended financial reporting quality constructs. Overall, the results show strong internal consistency across relevance, reliability, and clarity, consistent with previous accounting studies **(**Al-Dmour et al., 2018; Ahmed, 2020**)**.

Hypotheses Testing

The first hypothesis (H1) proposed that relevant information positively affects bank performance. Regression results support this hypothesis: the coefficient for relevance quality was positive and significant (B = 0.013, t = 3.180, p = 0.004), suggesting that timely and decision-useful information helps users evaluate current and future events more effectively, improving bank performance. This is in line with prior findings **(**Abakasanga et al., 2019; Ahmed, 2020**)**. The second hypothesis (H2) stated that financial reporting reliability positively influences bank performance. This was also supported, with a positive and significant coefficient (B = 1.017, t = 4.245, p < 0.001), indicating that more reliable reporting contributes to better bank outcomes. The third hypothesis (H3) proposed that financial report clarity positively affects bank performance. The results confirmed this hypothesis, with a positive and significant coefficient (B = 0.013, t = 2.493, p = 0.020), showing that clearer and more comprehensible reports enhance bank performance. Overall, relevant information, financial reporting reliability, and financial report clarity all had significant positive effects on bank performance, supporting H1, H2, and H3. Therefore, existence of financial reports with more

quality assists in evaluating the effects of bank resources in delivery of bank service, hence adding value in the assessment of bank performance.

Discussion

The study examined the relationship between financial reporting quality and bank performance. The findings indicate that relevant information has a significant positive impact, consistent with earlier studies **(**Abakasanga et al., 2019; Ahmed, 2020**)**. This supports H1, confirming that timely and relevant information enables more accurate performance evaluations and enhances stakeholder confidence. Hypothesis 2 (H_2) proposed that financial reporting reliability positively influences bank performance. The study findings corroborated with the predicted assumption. Also, hypothesis 3 (H_3) posited that financial report clarity positively influences bank performance. Those three hypotheses are supported by the Decision Usefulness Theory, which demonstrates that financial reported information is relevant, reliable and understandable to enable stakeholders' to make informed economic decisions (Soyinka et al., 2017).

Conclusion and implications

This study examined how financial reporting quality measured via relevance, reliability, and clarity influences the performance of Tanzanian commercial banks. The findings have highlighted that both financial reporting qualities namely: relevance, reliability and clarity positively and significantly influence bank performance. Theoretically, the study has added knowledge on the application of the decision usefulness perspective by illustrating that in developing financial systems, relevance, reliability and clarity of information influence bank performance. It contributes to emerging-economy literature by providing empirical evidence from Tanzania, as one of Africa's rapidly transforming banking sectors, showing that theoretical expectations developed in mature markets may hold in less developed settings. This study demonstrates how these financial reporting qualities affect decision-making: by improving stakeholder comprehension, confidence, and oversight, they guide managers and investors in resource allocation and strategic planning. Policy makers and regulatory authorities such as the Bank of Tanzania are encouraged to develop policies that foster transparency while enhancing decision-useful reporting. Specifically, promoting voluntary disclosures via Banking and Financial Institutions (Disclosure) of 2014 and expanding the number of listed commercial banks may enhance understanding and drive long-term bank performance. Moreover, the study recommends the following for policy makers and regulatory authorities.

Firstly, policymakers should balance reliability with flexibility by setting verification standards that ensure credibility without restricting effective communication. Secondly, commercial banks can enhance the relevance of their financial reports by incorporating real-time data analytics and forward-looking information to support decision-making by stakeholders and regulators. Thirdly, regulators should offer targeted IFRS training programs to strengthen the reporting skills of finance officers, particularly in medium-sized banks that may have limited resources. Finally, expanding opportunities for listing on the Dar es Salaam Stock Exchange could increase market discipline and improve transparency among unlisted banks, thereby supporting overall banking sector performance. Despite its contributions, this study has some limitations that point to areas for future research. The cross-sectional design limits the ability to assess changes over time, so longitudinal or panel data studies are recommended to capture the evolving effects of financial reporting quality on bank performance and to control for shocks such as regulatory changes or macroeconomic fluctuations. In addition, this study focused on

only three dimensions of financial reporting quality. Future research should consider other qualitative attributes, including comparability, verifiability, and prudence, as well as institutional factors such as ownership structure, audit quality, and corporate governance.

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