EFFECT OF FINANCIAL CAPITAL REPORTING ON FIRM VALUE OF LISTED COMPANIES IN KENYA

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ABSTRACT

Firm value in many companies has been deteriorating because of the lack of reporting financial and non-financial information, resulting in lack of transparency and accountability. In today's world, most successful businesses recognize that any business venture's core purpose is to create firm value for investors, customers, and employees by adopting integrated reporting. Despite adopting integrated reporting, many companies are not doing well financially; hence, they need to do more research on integrated reporting. The study's objective was to determine the effect of financial capital reporting on the firm value of listed companies. Trade-off theory guided the study. Positivism research philosophy was used to guide the study. A correlational research design was adopted. The study population comprised 23 companies adopting integrated reporting listed in the Nairobi Securities Exchange. The choice of the listed firms at the Nairobi Securities Exchange was validated because it was the only stock market in Kenya legally required to prepare integrated reports under the company act CAP 486. A census survey was employed. Secondary data was collected from the Nairobi Securities Exchange website from 2015 through 2022 for eight years. Panel summary statistics and panel data regressions were used to analyze the gathered data. The components of descriptive statistics included overall means, standard deviations, minimum and maximum ratios, the between-firm standard deviations, and the within-firm standard deviations. Panel data regressions included serial correlation tests, stationarity tests, Hausman tests, Breusch-Pagan Lagrange multiplier (LM) tests, and testparm tests. The Hausman test was used to select suitable models between the random effects (RE) and fixed effects (FE) for each variable modeling. The findings analyzed using STATA established that financial capital reporting positively and significantly affects the firm value of listed companies in a way that increasing financial capital reporting improves the firm's overall value. Firm value does not, however, vary significantly with time but is slightly influenced by unobserved firm-specific effects. Moreover, the benefits of adopting reporting standards are only felt in the long run. This finding reinforces existing research by adding the knowledge that the exact variance in firm value that unobserved firm-specific factors add to the idiosyncratic error can be determined when the appropriate model is employed.

Keywords: Financial Capital Reporting, Firm Value, Integrated Reporting, Sustainability Reporting.

INTRODUCTION

Background of the study

Firm value remains an essential theme in the investment discourse. In today's world, most successful businesses recognize that any business venture's core purpose is to create value for investors, customers, and employees. Firm value encompasses intangible assets such as brands, people, ideas, and innovation. Thus, firm value is broadly defined as a process through which labor and resources are turned into tangible outcomes that meet the needs of others (Husna & Satria, 2019). Firm value is at center stage due to changes in global corporate governance. Japan, for instance, has put in place a governance agenda to market and communicate the actual value of companies in the capital markets (Zhu & Lin, 2017). The Netherlands emphasizes long-termism, asserting that loyalty shares, contingent upon short-termism, fail to provide the necessary level of accountability or enhance business value (Orihara, 2017).

The United Kingdom is currently on the cusp of implementing reforms in the realm of corporate governance. This is particularly evident in ongoing discussions surrounding the Company's Act and the responsibilities of the board concerning stakeholder interests (Vitolla et al., 2020). In South Africa, there has been a movement of focus. This perspective encompasses long-term considerations and considers essential stakeholders, trust, and resilience (Dumay et al., 2017). Therefore, firm value resides in reforms targeting strategies, governance, performance, and prospects inherent in integrated reports.

The occurrence of firm failures in Kenya highlights the significance of considering the interests of many stakeholders beyond shareholders to maximize firm value. The companies demonstrated inadequate governance and openness in their decision-making processes, particularly when considering the interests of a broader range of stakeholders. During periods such as the current situation, wherein the Nairobi Securities Exchange is facilitating the revival of distressed enterprises, it becomes evident that the management and board members of listed firms must comprehend the principles governing company value. It is crucial to acknowledge that the concept of firm value should not be confined just to the interests of shareholders (Anyanzwa, 2021).

Including financial information in a company's report has consistently been regarded as a value-enhancing practice. The aforementioned element constitutes a fundamental component of a company's reporting framework. Globalization has compelled enterprises to adopt a more assertive approach in responding to the needs of their stakeholders, owing to the dynamic nature of the environment. One of the stipulations entailed the incorporation of non- financial data. The significance of non-financial information has increased, resulting in business reports incorporating a more comprehensive viewpoint that extends beyond financial measures (Permatasari & Narsa, 2022).

The field of integrated reporting (IR) remains an ongoing area of advancement, with reporting obligations in most countries being either regulated or adopted voluntarily. South Africa

stands as the sole exception thus far, being the foremost leader in integrated reporting. It is the first nation to enforce mandatory obligations for listed firms in this regard. Following the regulations set forth by the Johannesburg Stock Exchange, companies must furnish an integrated annual report unless they can demonstrate a valid justification for their non-compliance (Opanyi & Omare, 2022).

Integrated financial reporting (IFR), which has been created and executed by the International Integrated Reporting Council (IIRC), presents a holistic answer to the business challenge at hand. This approach, which has gained global recognition via its development, promotion, and implementation, holds significant potential. Establishing communication mechanisms to address the costs and benefits of integrating financial reporting is crucial in advancing, accepting, and transforming integrated reporting inside the framework (Zhou et al., 2017). Integrated reporting can be employed by organizations exhibiting specific attributes, such as complexity and large external finance requirements, as a means to mitigate information asymmetry. Sophisticated organizational structures are associated with heightened levels of information processing, which in turn may result in constrained information processing by investors. This scenario leads to a notable disruption in the timeliness of information updates about asset valuations, for instance, stock prices that do not align with costly information acquired by investors (Omare et al., 2025).

Companies seeking external finance can face higher costs due to information asymmetry between investors and managers. Hence, organizations must have a comprehensive information ecosystem that facilitates the provision of clarifications to stakeholders in the process of generating corporate value. Integrated reports are deemed suitable for informing stakeholders, mainly financial capital providers because they include pertinent financial and non-financial information .

Integrated reporting is a comprehensive approach that combines financial and non-financial information to provide stakeholders with a holistic view of a company's performance and prospects. While some firms have embraced integrated reporting, others rely solely on traditional financial reporting methods. The study aimed to assess whether adopting integrated reporting practices leads to enhanced firm value compared to those firms that have not yet adopted this approach. The study focuses on various variables for firms that have adopted integrated reporting, including manufactured capital reporting, human capital reporting, environmental capital reporting, financial capital reporting, and intellectual capital reporting. These variables represent different aspects of a company's operations and are crucial in understanding its value-creation process. By analyzing these components, the study sought to identify the specific contributions of integrated reporting practices to firm value (Ghosh, 2019).

On the other hand, the study utilizes financial performance indicators to assess firm value for firms that have not adopted integrated reporting. These indicators, such as net profit margin, return on assets, return on equity, and return on investments, provide insights into a company's financial health and performance. They offer valuable metrics for evaluating profitability,

efficiency, and the ability to generate returns for shareholders. By comparing the firm value of companies using these financial indicators, the study aims to determine the relative impact of integrated reporting on firm performance and value (Nariswari & Nugraha, 2020).

Financial performance indicators such as net profit margin, return on assets, return on equity, and return on investments are crucial in influencing firm value. Net profit margin measures a company's profitability by indicating the percentage of revenue that translates into profit after accounting for expenses. Return on assets evaluates how efficiently a company utilizes its assets to generate profits, while return on equity measures the profitability of shareholders' investments. Return on investments assesses the returns generated from various investment activities undertaken by the company. These indicators provide valuable insights into a company's financial performance ability to create value for shareholders, making them essential metrics for evaluating firm value (Panigrahi & Vachhani, 2021).

Integrated financial reporting is becoming increasingly popular among listed companies in Kenya as they face the ongoing difficulty of generating value for investors, customers, and employees. The implementation of the International Financial Reporting Standards (IFRS) is in effect in Kenya, and the National Reporting framework for IFRS is fully recognized. Within this framework, the Institute of Certified Public Accountants of Kenya (ICPAK) is responsible for overseeing the activities of accountants and setting standards for accounting and corporate reporting (Vitolla et al., 2020).

Integrated reporting still lags in most sub-Saharan countries. For instance, although continuous efforts have been undertaken to align Kenya with global international relations norms, the government still lacks a robust framework for integrated reporting. Similarly, the existence of the King's code of governance in South Africa, which emphasizes the need for integrated reporting (IR), has not elicited wide adoption and implementation. Many companies in South Africa still face challenges in effectively generating firm value for their stakeholders (Chininga et al., 2023). Furthermore, many educational institutions have not adequately revised their curricula to address the importance of including information retrieval skills in the education and training of prospective accountants (Salvi et al., 2020).

Despite the growing focus and implementation of integrated reporting, a universally mandated reporting standard has yet to be established. The adherence to formality holds significant value for investors, particularly those operating within diverse business environments. It facilitates implementing a uniform system for documenting business transactions, ensuring an impartial and just evaluation of businesses. Additionally, it enables a fair comparison between peer companies operating under distinct legal jurisdictions. Integrated reporting is often regarded as a fundamental aspect of organizational practices, as it aims to foster accountability toward future societies (Hoque, 2017).

The study will focus on listed companies in the Nairobi Securities Exchange (NSE) that have adopted and not adopted integrated reporting from 2015 to 2022. Listed companies use integrated reporting because it clarifies how an entity's strategy, governance, performance,

and prospects within its external environment contribute to firm value over the short, medium, and long term, helping them increase transparency and accountability.

Statement of the problem

Firm value among listed firms is currently wanting, as about 390,000 firms globally collapse every year due to a lack of transparency and accountability, which has resulted in reduced shareholders' earnings per share and non-payment of suppliers and employees (Stubbs & Higgins, 2018). Listing of companies at the securities exchange provides companies with an opportunity to improve their firm value by transacting shares, sharing risks, and portfolio diversification. With the evolution of the corporate social responsibility (CSR) concept, the firm value has transcended financial value to subsume non-financial value. Therefore, through the International Integrated Reporting Council (IIRC) framework, businesses must facilitate reporting financial and non- financial information. The argument posited by this framework is that reporting financial and non-financial information is likely to maximize the firm value (Vitolla, Raimo, & Rubino, 2020). Following the incidents of financial scandals in the early 2000s and the global financial crisis experienced around 2008, emphasis has shifted towards encouraging corporate information reporting in consideration of economic, social, and environmental sustainability (Slack & Campbell, 2016). The significance of integrated reporting has permeated the Kenyan business context, albeit voluntarily. Despite such endeavors toward integrated reporting and firm value, several gaps are discerned in the existing studies. Firstly, most studies form on both categories of firms, requiring that they first explore adoption and non-adoption. Secondly, most studies use financial performance as a proxy of firm value, forgetting that many factors influence firm value. Therefore, the study seeks to fill the gap by using only the firms adopting integrated reporting, firm value, and panel data statistics, which cater to both the within and between firm variations over time.

Objectives of the Study

To determine the effect of financial capital reporting on the firm value of listed companies in Kenya.

Hypotheses of the Study

H_0: Financial capital reporting has no significant effect on the firm value of listed companies in Kenya.

Scope of the Study

The study focused on integrated reporting and firm value of listed companies in the Nairobi Securities Exchange. The study construct was financial capital reporting. The study was based on the listed companies adopting integrated reporting in Kenya for 2015- 2022. The choice of the listed firms at the NSE was validated because it is the only stock market in Kenya that is legally required to prepare integrated reports under the company act CAP 486. This study took a look at the firm's published reports. This period considered the various market trends and fluctuations and thus gave a suitable generalization of results across the sectors.

LITERATURE REVIEW

Trade-Off Theory

Myers postulated this theory (1984). Based on the theoretical framework, it is posited that each organization possesses an ideal capital structure, which may be determined by carefully weighing the costs and benefits associated with equity financing. Consequently, an organization determines the composition of its capital structure by evaluating the advantages and disadvantages of incorporating loan and equity resources. Debt capital possesses certain benefits, such as potential tax advantages. However, excessive amounts of debt within the capital structure might potentially result in bankruptcy and additional costs associated with agency issues.

The incurrence of agency expenses can be attributed to conflicting interests among different stakeholders inside a corporation, as well as the existence of information asymmetry. Therefore, when considering the trade-off theory, a corporation needs to consider the cost of an agency. This involves striking a balance between the advantages of debt (such as the tax benefits it offers) and the drawbacks of excessive debt (such as financial distress). The corporation must also consider the expenses associated with equity agency and debt agency costs. Based on the theoretical framework, it is posited that when corporations augment their debt within their overall capital configuration, the incremental expense associated with debt escalates.

Companies with a more significant proportion of tangible assets are expected to exhibit higher debt ratios. Conversely, organizations with a larger share of intangible assets should place greater reliance on equity capital, as the value of these assets is susceptible to risk in the event of liquidation. Based on the principle mentioned above, it is recommended that enterprises undertake a thorough evaluation of the costs and benefits associated with different levels of debt. By doing so, they may develop an ideal debt structure that effectively balances the incremental advantages, such as debt tax shields, with the associated costs, such as bankruptcy risks. This elucidates the rationale for utilizing stock and debt as partial funding sources or organizations' overall capital structure (Serrasqueiro & Caetano, 2015). Increased leverage can enhance a firm's value by mitigating conflicts between shareholders and managers about matters such as the allocation of free cash flow, optimal investment strategies, and the risk to be assumed (Abel, 2018).

In contrast, the costs associated with debt encompass both direct and indirect expenses related to bankruptcy. Debt financing involves future cash outflows in the form of regular interest payments and repayment of the principal amount borrowed. These responsibilities increase the probability of a corporation experiencing financial default and ultimately filing for bankruptcy (Khoa & Thai, 2021).

This theory is relevant to this study to ascertain whether financial capital reporting, the optimal mix of debt and equity capital, affects the firm value of selected companies listed in the Nairobi Securities Exchange.

Conceptual Framework

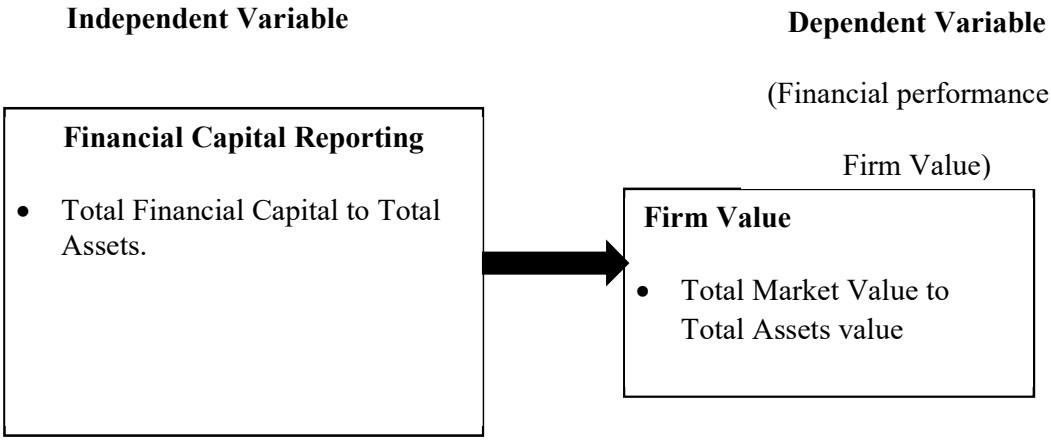

Figure 1. 1: Conceptual Framework

Financial capital reporting

Financial capital reporting refers to systematically collecting and maintaining data about a company's financial resources, encompassing both its equity and loan capital. According to Suttipun (2017) professionals in this field assist organizations in formulating strategic decisions and ensuring compliance with tax regulations. Financial capital refers to a collection of readily available resources that a business can utilize. Most of these resources are derived from two primary sources: loan financing and equity financing. Financial capital encompasses the financial resources and relevant information that contribute to the attainment of organizational objectives and the creation of value for the stakeholders of a firm (Suttipun, 2017).

Asyik et al. (2023) tested financial reporting quality determinants and their ultimate effects on firm value. They used a quantitative research approach that tested a theory using a priori hypotheses. The study sample comprised 85 listed companies drawn from Indonesia Stock for five years, from 2016 to 2020. This yielded 425 observations spread in different panels. Using path analysis to analyze data, integrated reporting quality inherent factors, including dynamic ones like sales volatility and operational cycle, alongside static factors such as firm size, were critical to realizing quality in integrated reporting, leading to a positive reaction to market dynamics. Their study confirmed that clean surplus theory valuation is highly dependent on the composition of financial statements. Moreover, the study affirms that quality integrated reporting is an all-inclusive process that requires diverse factors, whether static or dynamic.

Meanwhile, Harjanto (2023) analyzed the nexus between firm value and integrated reporting quality. They employed the Ball-Shivakumar and Modified Jones Models to identify accrual quality and earnings management as integrated reporting quality proxies, respectively. Meanwhile, they used Tobin's Q, share price, Market value-added, and Price Book ratio to measure firm value. The study targeted manufacturing firms listed on the Indonesia Stock Exchange for four years, spanning from 2018 up to 2021. The study sample was chosen

purposively, and secondary data was collected and analyzed through descriptive and inferential statistics, including normality tests and other statistical tests. The study revealed that integrated reporting quality positively and significantly influenced firm value and made considerable contributions to the value of manufacturing firms under consideration.

Randa. (2022) intended to evaluate the impact of integrated reporting (IR) (financial and manufactured capital) on the financial performance of Nigerian-listed multinational corporations. The study employed a longitudinal research design and secondary data from the companies' financial records between 2011 and 2020. The fixed effect model was evaluated using descriptive, correlative, and panel regression methods. STATA 16 software was employed to aid in the analysis. Results indicated that financial capital reporting has a positive and significant effect on the financial performance of multinational corporations.
Gazzola and Amelio, (2022) aimed to determine the influence of integrated reporting practices on operational performance and firm value of National Stock Exchange-listed companies in India. Manual content analysis was used to construct the Integrated Reporting Disclosure Quality Index (IRDQI) to assess disclosure practices of 93 integrated annual reports for two years from 2017–2018 to 2019– 2020. Further, panel data models were utilized to investigate the relationship between integrated reporting and financial performance. The study's findings indicated that the variable of financial capital reporting has a positive and significant effect on the financial performance of listed companies.

Suttipun (2017) investigated the corporate financial performance and integrated reporting of listed insurance companies in Nigeria from 2010 to 2019. Ex post facto and correlational research designs were used in the study. The study's sample size included insurance companies listed on the Nigerian Stock Exchange. The study's data came from the sampled insurance companies' published annual financial statements. Multiple regression analysis was used to test hypotheses. The outcome of the regression analysis showed that the corporate financial performance of listed insurance companies in Nigeria is positively and significantly impacted by integrated capital reporting.

RESEARCH METHODOLOGY

Research Philosophy

Research philosophy is a framework that guides how research should be conducted based on ideas about reality and the nature of knowledge. A research philosophy comprises established knowledge and beliefs, necessitating the transformation of beliefs into empirical knowledge (Collins & Hussey, 2014). This research employed a positivist theoretical framework, which is predicated on the assumption that the observable phenomena provide dependable and consistent data. Positivism is a research philosophy utilized by researchers who adopt quantitative methodologies characterized by the systematic application of quantitative techniques. Positivism encompasses using statistical tools to empirically examine hypotheses and analyze research data obtained through the implementation of quantitative research procedures (Zukauskas et al., 2018).

Research Design

The study adopted a panel data research design that examines observations about different cross-sections across time. Panel data is collected from multiple individuals over a set period, organized chronologically (Hsiao, 2022). This research design was appropriate to the study because the study involved data from 23 panels of listed firms on the NSE drawn over 8 years, combining cross-sectional and time series components.

Target Population

This study's target population was 23 companies filing integrated reports listed at the Nairobi Securities Exchange (NSE) from 2015 to 2022. The target population comprised all the twenty-three listed companies filing integrated reporting.

Sample Size and Sampling Technique

The study employed a census survey where all the twenty-three companies filing integrated reports were used for data collection to establish the effect of integrated reporting on the firm value of listed companies in NSE. This technique was appropriate since the target population is small. It was also a suitable technique as it helped eliminate sampling error; hence, valid and detailed information was collected (Skinner, 2018).

Research Instruments

The secondary data collection sheet was used for the study's secondary data collection. Secondary panel data was gathered from the annual reports of NSE-listed companies in Kenya for 2015 to 2022.

Data Collection Procedure

Published audited annual financial reports from 2015 to 2022 were downloaded from the Nairobi Securities Exchange website. Data collected included total equity, total debts, total intangible assets, cost of goods manufactured, total non-current assets, total environmental management cost, total human capital, net income, preferred dividends, weighted average common shares outstanding, and total assets.

Data Processing, Analysis, and Presentation

Before exporting the collected data to STATA for analysis, the gathered data was edited and cleaned in Microsoft Excel. Panel summary statistics and panel data regressions were used to analyze the gathered data. The components of descriptive statistics included overall means, standard deviations, minimum and maximum ratios, between-firm standard deviations, and within-firm standard deviations. Panel data regressions included serial correlation tests, stationarity tests, Hausman tests, Breusch-Pagan Lagrange multiplier (LM) tests, testparm tests, and generation of panel data regression coefficients. The Hausman test was used to select suitable models between the random effects (RE) and the fixed effects (FE) for each variable modeling. The overall model relating firm value to integrated reporting was of the form summarized in the equation 3.1below;

$Y_{it} = \beta_0 + \beta_1 FCR_{it} + \alpha_i + U_{it}$ ……(3.1)

Where:

Y represents Firm Value
FCR represents Financial Capital Reporting
α_i represents firm-specific error
U_{it} represents the idiosyncratic error.
Bo represents the regression constant
β_1 – represents slope coefficients indicating the effect of financial reporting practices on firm value.
i denotes the listed firms adopting integrated reports at NSE
t represents time dimensions from 2015-2022

Measurement of Variables

Table 1. 1: Measurement of Variables

Variable	Category	Measurement	Formula	Source
Financial Capital Reporting	Independent	Equity Ratio	$\frac{Total\ financial\ capital}{Total\ Assets}$	Adegbie et al. (2019)
Firm Value	Dependent	Market to Book Ratio	$\frac{Total\ Market\ value}{Total\ Asset\ Value}$	Husna & Satria (2019)

DATA ANALYSIS, RESULTS AND DISCUSSION

Declaring Data as Panel Data

Data were first declared panel data, commonly known as 'xt data'. Xt is typically used to reference the combination of cross-sectional data relating to firm-level and time-series data, which takes care of the temporal aspect. The xt data was used to address firm-specific variations in integrated reporting and the corresponding temporal variations expected of such longitudinal data. The panel structure output on declaration is displayed in Table 4.1. Results show that panels were strongly balanced using the firm as the panel variable. These strongly balanced panels confirm that all firms involved had data for all variables in the stated time interval (2015 to 2022).

Table 1. 2: Panel Data Declaration

Panel variable:	FIRM (Strongly balanced)
Time variable:	Year, 2015 to 2022
Delta:	1 unit

Panel Summary Statistics

Panel summary statistics were generated to explore the overall distribution of study variables and establish the between and within firm variations. The statistics covered included the overall

means, standard deviations, minimum and maximum values, number of observations, firms, and periods. The results were presented in Table 1.3.

Table 1. 3: Panel Summary Statistics

Variable		Mean	Std. Dev.	Min	Max	Observation
Firm Value	Overall	.539	.221	.012	.986	N = 184
	Between		.106	.326	.710	n = 23
	Within		.195	.063	1.04	T = 8
Financial Cap. Reporting	Overall	.497	.187	.012	.913	N = 184
	Between		.095	.288	.672	n = 23
	Within		.162	.053	.973	T = 8

Specific results show that firm value, measured through market-to-book ratio, averaged a ratio of 0.539 with a moderate variation across firms demonstrated by a standard deviation of 0.221. Firm value in the stated period ranged between 1.2% and 98.6% of the expected maximum firm value across the 23 firms over the eight years. Meanwhile, financial capital reporting, measured through equity ratio, depicts firms adhering to stable financial reporting practices. The overall mean was 49.7%, ranging from 1.2% to 91.3%. The between-firm variations were very small, showing consistency in reporting across firms. However, the within-firm variations indicate a possibility of periodic adjustments in financial reporting strategies.

Diagnostic Tests

Data diagnostic tests involved testing for serial correlation, unit root, fixed or random effects, and heteroskedasticity in the case of fixed effects (FE) models.

Testing for Serial Correlation

The presence of serial correlation in panel data was tested using the Wooldridge test for autocorrelation used in panel data. Under this test, the errors were presumed independent across the eight time periods. If the Wooldridge F-statistic were significant at the 5% level, then a correlation between error terms would be inferred. The test results provided in Table 4.3 revealed the following. The F-statistic was 2.97, with a p-value = 0.099 above 0.05, indicating no evidence of first-order autocorrelation.

Table 1. 4: Wooldridge test

H_0: no first-order autocorrelation	**score**
F(1, 22)	2.972
Prob>F	0.099

Testing for Unit Roots

Considering the strongly balanced panels, unit root tests were conducted using the Levin-Lin-Chu approach. Under this approach, the assumption was that all panels contained unit roots, indicating not being stationary. Therefore, a p-value less than 0.05 (5% significance level) would imply stationarity in at least one panel. As shown in Table 1.5, the variables had very low values, p-indicating all data sets were stationary over the eight-year period.

Table 1. 5: Stationarity test results

H_0: Panels contain unit roots		Number of panels	= 23	
Ha: Panels are stationary		Avg. number of periods	= 8	
		Stat.	p-value	Conclusion
Firm value	Unadjusted t	-9.02		
	Adjusted t*	-4.11	.000	Stationary
Financial capital reporting	Unadjusted t	-8.31		
	Adjusted t*	-4.49	.000	Stationary

Inferential Data Analysis

The inferential analysis involved testing the direct effects of each integrated reporting variable on the firm value of listed firms that have adopted integrated reporting, followed by a panel multiple regression for model specification.

Direct Effects of Financial Capital Reporting on Firm Value

The objective of this study sought to determine the effect of financial capital reporting on the firm value of companies listed at the NSE. Before running the panel data regression, the Hausman test was run to decide between fixed and random effects models. The Hausman test was run, assuming that the preferred model was the random effects model. The Hausman test results (Table 1.6) revealed a non-significant chi-square statistic ($\chi^2(1)=0.23$, $p=0.632$). The assumption of a random effects model was therefore upheld.

Table 1. 6: Hausman Test Results for Financial Capital Reporting

	Coefficients		(b-B)	Sqrt(diag(V_b-V_B
	(b)	(B)	Difference	S.E.
	fe	Re		
Financial capital reporting	.901	.915	-.014	.029

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 0.23

Prob>chi2 = 0.632

Next, the Breusch-Pagan Lagrange multiplier (LM) test was used to test whether time-random effects were significant. Under this test, time-random effects were assumed to be significant if the p-values fell below 0.05. The test revealed a non-significant likelihood ratio test statistic ($Chibar^2$ (01)=0.15, p=0.347). Therefore, the time-random effects were not significant and were not included in panel RE regression.

The panel random effects regression coefficient for financial capital reporting (Table 4.6) was positive and significant (b=0.915, p=0.001). Therefore, it is inferred that financial capital reporting had a powerful positive effect on firm value, where a unit increase in financial capital reporting increased firm value by 0.915 units. The sigma u value of 0.023 confirms that the difference between firm variations because of unobserved factors was minimal. On the other hand, the sigma e value of 0.138 reveals that idiosyncratic error variations not explained by financial capital reporting were equally small. Meanwhile, the rho value of 0.026 implies that only 2.6% of the variance in firm value could be attributed to differences across firms.

Table 1. 7: Financial Capital Reporting and Firm Value

Firm Value	Coef.	Std. Err	z	p>|z|
Financial Capital Reporting	.915	.056	16.39	0.000
Intercept	.084	.030	2.80	0.005
Sigma_u	.023			
Sigma_e	.138			
rho	.026	(fraction of variance due to u i)		

These findings confirm the importance of financial capital reporting in the value creation among listed firms. Indeed, financial reports have been identified as essential tools to make projections of future profitability, firm growth, and industry positioning (Oliver, 2024). The results of this study, showing the suitability of the RE model, show that the regression coefficient reflects the effect of financial capital reporting on firm value within and between firms at one specific time. In other words, the random-time effects do not have any consequence for the estimates.

While these findings strengthen existing research, albeit from a Kenyan securities exchange perspective, they add novel knowledge to existing theory and literature. For instance, while Suttipun (2017) demonstrated that financial capital reporting positively affected corporate financial performance among Thai listed firms, the period of the study cited as 2012 to 2015 may not reflect today's challenging business environment. This study addresses this gap by showing that financial capital reporting remains critical to firm value in contemporary business.

Moreover, using content analysis, Suttipun (2017) failed to recognize the within and between firm dynamics and the potential contribution of temporal variations. Therefore, this study strengthens Suttipun's findings by using the RE model, which not only catered for cross-sectional and temporal variations but also ensured that the idiosyncratic error did not correlate with the regressors. The findings also confirm that financial capital reporting is not context-specific. If it influences the financial performance of listed firms in Thailand, it can also influence the value of firms listed in the Kenyan context.

The findings of this study indicating the positive and significant effect of financial capital reporting also resonates with the findings by (Lambe et al., 2022). In their research probing how financial capital reporting influenced the financial performance of listed firms in the Nigerian securities exchange context, they established a positive and significant nexus between them. The point of departure with the findings of this study is that Lambe et al. (2022) used the ordinary least squares approach that pooled data together without regard to the fact that data ought to have remained in the respective panels. This study, therefore, contributes to such findings by showing the importance of panel data approaches, which capture both the cross-sectional and temporal components while showing the effects of unobserved within-firm factors.

The results also supported the findings obtained by Ebimobowei and Uche (2021), who found that the corporate financial performance of listed insurance companies in Nigeria is positively and significantly impacted by financial capital reporting. However, the study confirmed that similar findings could be replicated by focusing on firm value and in diverse study contexts. The study found that financial capital reporting significantly impacts firms' value, supporting the trade-off theory and showing that despite being proposed long ago, it still works in the contemporary firm’s environment. The theory suggests that balancing debt and equity achieves an optimal capital structure. To be more profitable and gain value, firms should prefer internal funding over external funding, as external financing is expensive and reduces value due to interest fees. Therefore, firms should have appropriate financial reporting to achieve optimal capital structure (Steedman, 1979).

Moreover, the findings show the positive effect of financial reporting on firm value. The findings of this study also support the conclusions by Hessayri and Saihi (2017), who, by seeking to establish what between shareholder governance and financial reporting would impact firm value, used panel data for the period 2001 and 2011, drawn from three countries, namely Turkey, Morocco, and South Africa. However, this current study depicts the currency of such findings by drawing upon recent data from 2015 to 2023. better still, this study's findings show that similar findings can be replicated in a single-country study without necessarily comparing.

Evidence of financial reporting positively impacting firm value has also been documented in the Kenyan context, albeit referencing financial disclosures. Gathoni and Muiru (2023) leveraged the Nairobi Stock Exchange (NSE) to explore how integrated financial reporting influences firm value among listed firms. They used secondary data from January 1, 2016, to

December 31, 2020, and from 64 listed firms. Using the multiple regressions approach, they determined that financial capital reporting positively and significantly influenced the value of the firms under investigation. Therefore,t this current research adds the knowledge that using the panel data econometrics approach accounts for the cross-sectional and time series components instead of multiple regression models.

Meanwhile, the findings also lend credence to the findings by Mohamed (2020), who used the NSE to analyze the nexus between the quality of financial reporting and the firm value of listed companies. The study targeted all the 67 listed firms operating from 2015 to 2019, including those operating irrespective of whether they were financial or non-financial. Using the Ordinary Least Squares (OLS) panel data regression, Mohamed (2020) established that financial reporting quality positively affected firm value. This current study adds to existing knowledge by empirically showing that econometrics models can address the weakness of the OLS approach, notably the inability to handle fixed and random effects models.

The findings of this study, mainly showing the positive effect of financial capital reporting on firm value, also resonated with other existing research findings. For instance, Asyik et al. (2023) tested financial reporting quality determinants and their ultimate effects on firm value. They used a quantitative research approach that tested a theory using a priori hypotheses. The study sample comprised 85 listed companies drawn from Indonesia Stock for five years, from 2016 to 2020. This yielded 425 observations spread in different panels. Using path analysis to analyze data, financial reporting quality inherent factors, including dynamic ones like sales volatility and operational cycle, alongside static factors such as firm size, were critical to realizing quality in financial reporting, leading to a positive reaction to market dynamics. Their study confirmed that clean surplus theory valuation is highly dependent on the composition of financial statements. Moreover, the study affirms that quality financial reporting is an all-inclusive process that requires diverse factors, whether static or dynamic.

Similarly, Harjanto (2023) analyzed the nexus between firm value and financial reporting quality. They employed the Ball-Shivakumar Model and the Modified Jones Model to identify accrual quality and earnings management as proxies of financial reporting quality, respectively. Meanwhile, they used Tobin's Q, share price, Market value-added, and Price Book ratio to measure firm value. The study targeted manufacturing firms listed on the Indonesia Stock Exchange for four years, spanning from 2018 up to 2021. The study sample was chosen purposively, and secondary data was collected and analyzed using descriptive and inferential statistics, including normality and other statistical tests. The study revealed that financial reporting quality positively and significantly influenced firm value and contributed considerably to the value of manufacturing firms under consideration.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary of Findings

The objective focused on the effect of financial capital reporting on firm value among firms listed on the NSE. The panel summary statistics revealed that firms were consistent in filing financial reports. The overall mean reporting averaged 49.7% and ranged between 1.2% and 91.3%. While there were minimal between-firm variations in financial reporting, the within-

firm variations were slightly higher, calling for periodical modifications in financial reporting strategies. Meanwhile, firm value, measured through market-to-book ratio, averaged a ratio of 0.539 with a moderate variation across firms demonstrated by a standard deviation of 0.221. Firm value in the stated period ranged between 1.2% and 98.6% of the expected maximum firm value across the 23 firms over the eight years.

The Hausman test confirmed that the random effects (RE) model was suitable for modeling the effect of financial capital reporting on firm value. Therefore, the RE panel regression results revealed that financial capital reporting significantly influenced firm value, with a unit increase in financial reporting increasing firm value by 0.915 units. Unobserved factors had minimal between-firm variations, and idiosyncratic error variations not explained by financial capital reporting were equally puny. Only 2.6% of the variance in firm value could be attributed to differences across firms, as indicated by the positive and significant panel random effects regression coefficient.

Conclusions of the Study

Listed firms that adopted integrated reporting consistently filed financial reports from 2015 to 2022. This filing of financial reports positively and significantly influenced firm value among these firms. The within-firm variation in financial reporting tended to be slightly higher than the between-firm performance, indicating that accuracy and consistency in financial reporting within firms require modifications in reporting strategies. Unobserved factors or firm-specific characteristics caused minimal variations in the effect between financial capital reporting and value creation among the firms. Therefore, through robust financial capital reporting strategies, listed firms could enhance firm value significantly and consistently owing to the minimal within and between firm variability and the inconsequential random-time effects. Moreover, the effect of financial capital reporting on firm value is not context-specific and works similarly for listed firms drawn from diverse study contexts.

Recommendations of the Study

Listed firms should focus on improving their strategies for financial reporting by leveraging periodicity, consistency, and accuracy to optimize firm value. The prominence of the within-firm variations requires targeting reliable and high-quality financial reports by regularly reviewing and refining reporting strategies. Besides, listed firms should adopt technology and standardize reporting frameworks to eliminate their variations. Meanwhile, firms should devise mechanisms to handle unobserved firm-specific factors that bar them from optimizing financial capital reporting.

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