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Impact of Relational Capital Disclosure and Firm Value of Firms Listed at the Nairobi Securities Exchange (NSE), Kenya

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Abstract
The disclosure of relational capital, underpinned by signaling is increasingly recognised as a critical factor influencing firm value. In the context of NSE listed -firms in Kenya, understanding this relationship can provide insights into how transparency and stakeholder relationships impact firm value. The purpose of this study was to establish the relationship between relational capital disclosure and firm value among firms listed on the Nairobi Securities Exchange (NSE) in Kenya. The study employed a correlational and longitudinal research design. The target population consisted of sixty-two (62) Nairobi Securities Exchange-listed firms between 2017 and 2021. A census technique was used to select all eligible firms to participate in the study. Secondary data was collected using a secondary data extraction tool. The validity of the research instruments was ensured through reviews by experts and supervisors, who assessed the content and face validity of the instruments. Reliability of the instruments was evaluated through a pilot study, where data was collected from a sample of firms to test the consistency and accuracy of the data extraction tool. The reliability was further supported by collecting data from audited company annual reports. Both descriptive and inferential statistics were used for data analysis. Specifically, correlation analysis was employed to examine the relationship between variables, while multiple linear regression analysis was used to test the hypotheses using panel data. Our findings indicate a declining trend in relational capital disclosure over these years. Despite this decline, we find a significant positive relationship between relational capital disclosure and firm value, measured using Tobin's Q (β=2.930976, $P<0.05$). These results underscore the importance of enhancing relational capital disclosure to boost firm value.

Keywords: Firm Value, Human capital disclosure, Intellectual capital Disclosure, Tobin Q

1. Introduction

In the modern business landscape, characterized by intense competition and an emphasis on knowledge and expertise, intellectual capital plays a pivotal role in ensuring long-term success and competitiveness. As globalization accelerates, the information economy enhances businesses' ability to compete by leveraging their intellectual assets (Sudibyo & Basuki, 2017). Intellectual capital, encompassing various forms of knowledge and expertise, has become crucial for organizational success in this competitive environment (Mondal & Ghosh, 2021; Lotfi, Salehi & Lari, 2021).

Relational capital, a key component of intellectual capital, includes elements such as licensing agreements, customer knowledge, strategic alliances, and partnerships with both customers and suppliers (Ngari, 2014). It focuses on the mutual understanding, trust, and respect developed through close interactions between external and internal stakeholders (Siddiqui & Asad, 2014). Research by Albertini & Berger-Remy (2019) highlights the significant and positive impact of relational capital, specifically customer relationships, on market value and financial performance. This finding is further supported by Corvino, Caputo, Pironti, Doni, & Bianchi-Martini (2019), who demonstrate that improvements in relational capital, particularly through enhanced customer satisfaction, contribute to an increase in firm value.

Despite the recognized importance of relational capital in driving firm value, it remains underrepresented in both mandated annual reports and voluntary disclosures (Bianchi-

Martini, Corvino, Doni, & Rigolini, 2016). This gap underscores the need for a deeper examination of how relational capital disclosure influences firm value and the extent to which firms are leveraging this critical asset.

1.1 Objective

The study sought to establish the relationship between relational capital disclosure and firm value of firms listed at the NSE, Kenya

1.2 Hypothesis of the Study

There is no statistically significant relationship between relational capital disclosure and firm value of firms listed at the NSE, Kenya.

2.0 Literature on Relational Capital Disclosure and Firm Value

Relational capital is concerned with mutual understanding, trust, and respect as a result of tight interactions between external and internal elements(Siddiqui & Asad, 2014).Siddiqui and Asadi (2014) looked at how Pakistani brand development enterprises performed with regard to relational capital components. A sample 40 managers from 34 Pakistani brand development firms participated in the poll. The study made use of original information that was gathered using a questionnaire. Models of correlation and regression were used to test hypotheses. Relational capital includes end-user relationships, consultant client relationships, supplier relationships, and retailer relationships. It has been discovered that relationships between relational capital components are related to business performance. A large number of connected respondents to the businesses were polled. The results showed that the relational capital elements (supplier relational capital, consultant-client relational capital, end-user relational capital, and retailer relational capital) positively affect the performance of brand development enterprises. In contrast to brand development firms that use primary data, the current study was conducted in all NSE listed firms in Kenya across all sectors.

In another study, Orens *et al.,* (2013) examined the cost of equity capital and customer value disclosure. To empirically investigate if content and precision were related to the firm's estimated cost of equity capital, the existence and clarity of customer value information on the websites of businesses from four countries in continental Europe were assessed. The research found a negative association between cross-sectional differences in a company's cost of equity capital and cross-sectional differences in the level of customer value disclosure. The precision of the presented customer value data also influenced this connection. There was a negative correlation between the cost of equity capital and quantitative (or hard) customer value disclosure, but not qualitative (or soft) customer value disclosure. It was found that the level of competition in an industry change how customer value disclosure and equity capital costs work together. The current study collected secondary data rather empirical synthesis in data collection.

Garcia-Merino, Garca-Zambrano, and Rodriguez-Castellanos (2014) examined how relational capital affects the value of a corporation. A sample of 24 people, out of a total population of 35, was quoted on the Spanish Stock Exchange. Customer happiness was used to quantify relationship capital, and the entire worth of the firm was used to analyse business value. The study used a results-based theory or point of view. The study found a positive correlation between higher customer satisfaction and a higher business value, although this correlation was not statistically significant. In addition to relationships with customers, the current study took into account other elements, including strategic alliances, licensing and agreements, and relationships with suppliers. The current study used all 62 NSE firms in Kenya.

Bianchi Martini, Corvino, Doni, and Rigolini (2016) assessed the performance of European publicly traded companies in connection to relational capital disclosure, corporate reporting, and business performance. The study includes a cross-country investigation of 80 companies and a content analysis based on 51 relational capital framework components of compulsory and optional reports. In a number of bi-variate and multivariate statistical investigations, an RCD index was utilized to assess if RCD is positively associated with particular variables used as surrogates for evaluating business performance. The financial performance criteria included enterprise value, which acts as a proxy for the company's market value, net operating cash flow, and capital expenditures. Indicators for relational capital disclosure information included relationships with customers, suppliers, and partners, as well as knowledge of licenses, alliances, customers, suppliers, and partners, along with agreements. The study was based on the legitimacy idea. The analyses revealed statistically significant connections between sales, net operational cash flow, and RCD-supported capital expenditures. There is, however, no statistically significant association between enterprise value and anything else. The current study used multiple linear regression models in testing the moderated and direct relationship.

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2.1 Conceptual Framework

In a conceptual framework, the researcher conceptualizes or diagrammatically expresses the link between variables. The conceptual framework's goal is to make it easier for the reader to understand the suggested relationship.

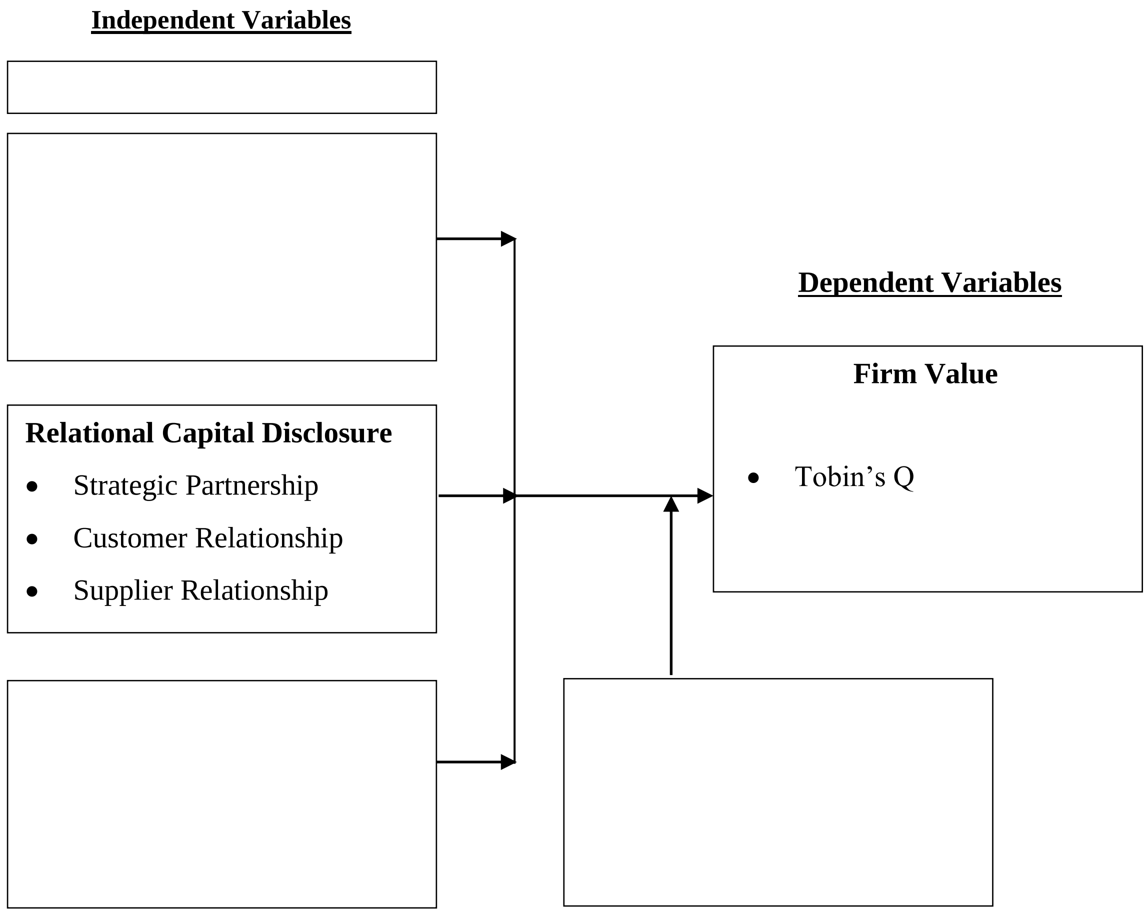

Fig. 2.1: Conceptual framework
Source: Adapted from Muttakin, Khan, & Belal (2017) and Anifowose (2020)"

Figure 2.1 represents the conceptual framework as adopted and modified from Muttakin, Khan, and Belal (2017). The independent variable is relational capital disclosure.

3.0 Methodology

This study adopted correlational and longitudinal research design. These approaches defined the processes of discovering, analyzing, and describing the relationship between human capital disclosure, and firm value of Kenyan NSE-listed firms. The study utilised secondary data The target population for this study, comprised of 62 enterprises listed on the NSE from 2017 to 2021 as of December 31, 2021 (NSE, 2021). The study covered the period before COVID-19 (from 2017 to 2019) as well as the period following COVID-19 (from 2019 to 2021). This put the firms' resiliency to the test, as well as the consequences of COVID 19.

The study adopted a census method; however, four NSE-listed firms were excluded for pilot study making it target population to be 58 NSE-listed firms as unit of analysis from which panel data was taken between 2017 and 2021. Linear regression, Descriptive statistics and correlation analysiswas used in the study.

The Pearson correlation coefficient was used in correlation analysis to indicate the degree and direction of relationship between relational capital disclosure and firm value. Panel data was evaluated using multiple regression based on a five-year time series.

$Y_{it}= \beta_0+ \beta_2 X_{2t} + \varepsilon$------------

Y_{it} = Firm value at time *t* of firm *i* in terms of Tobin Q

X_{2t}= Relational capital disclosure at time t

ε = Error coefficient

4.0 Results and Discussion

4.1 Descriptive statistics

Relational capital disclosure was also examined in term of observation obtained for the period of 2017 to 2021. The mean and standard deviation results were obtained to understand both the trend and magnitude of relational capital disclosure index. This was summarized in Table 4.2.

Table 4.2: Relational Capital Disclosure.

Year	Observation	Mean	Std.	Min	Max
2017	53	54.0%	24.1%	12.5%	100.0%
2018	53	51.8%	24.2%	12.5%	100.0%
2019	53	50.0%	23.9%	12.5%	100.0%
2020	53	47.9%	23.5%	12.5%	93.8%
2021	53	48.1%	23.8%	12.5%	100.0%

Overall	**265**	**50.4%**	**23.9%**	**12.5%**	**100.0%**

Source: Research Data (2024).

According to the Table 4.2, relational capital disclosure index had a highest average of 54.0% in 2017 and a minimum average of 47.9%. The overall index of 50.4% revealed that relational capital disclosure is averagely disclosed in the financial reports with a lowest index of 12.5% and the highest index of 100%. A standard deviation of 23.9% resulting to 47.4% coefficient of variation. This reveals a higher spread base on coefficient range between 20% to 30% across the listed companies and across the years. However, relational capital disclosure is lower as compared with human capital disclosure among the listed companies in NSE.

The results indicated that there was a declining trend between the period of 2017 at 54.0% and 2020 at 47.9%. However, there was a slight improve in 2021 at 48.1% from 47.9% in 2020. The declining trend might be associated with macro environment affecting suppliers, consumers, investors and other stakeholders.

The effect of decline in 2020 can be explained by Siddiqui and Asadi (2014) who revealed that relational capital disclosure that is suppliers, consultant-client, end-user and retailer relational capital has significant impact on performance of the firm. Therefore, the relational capital disclosure is significantly affected by the performance of macro-environment since it can affect the relationship between stakeholders and the firm affecting the firm value.

4.2 Inferential Statistics

Table 4.10: Relational Capital Diclosure and Tobin Q

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Random-effects GLS regression                   Number of obs     =        265
Group variable: Company                         Number of groups  =         53

R-sq:                                           Obs per group:
     within  = 0.3450                                         min =          5
     between = 0.2705                                         avg =        5.0
     overall = 0.2753                                         max =          5

                                                Wald chi2(1)      =      32.43
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.0000

                              (Std. Err. adjusted for 53 clusters in Company)
------------------------------------------------------------------------------
             |               Robust
           Q |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         RCD |   2.930976   .5146835     5.69   0.000     1.922214    3.939737
       _cons |   -.350158   .1990057    -1.76   0.078    -.740202    .0398859
-------------+----------------------------------------------------------------
     sigma_u |  .78796114
     sigma_e |  .33996927
         rho |  .84306166   (fraction of variance due to u_i)
```

Source: Research Data (2024).

The results in Table 4.12 shows that relational capital disclosure had positive relationship with Tobin Q (β=2.930976, $P<0.05$). A variation of 27.53% in Tobin Q is related with relational capital disclosures while 72.47% is associated with other variables (R^2= 0.2753). The summary model is given as;

Q = -0.350158 + 2.930976RCD

This implies that a unit increase in RCD would lead to an increase of 2.930976 in Tobin Q. Hence, an increase in RCD has a positive significant increase in Tobin Q.

The findings were in agreement with those of Bianchi-Martini, Corvino, Doni, and Rigoni (2016), and Siddiqui and Asadi (2014), that found that there was a positive influence between relational capital disclosure and business performance.However, study focused on cash flow and sales in contrast to the current study that was based Tobin Q. The current study found that relational capital disclosure had positive significant relation with Tobin Q. This implies that relationship capital disclosure had positive influence on market performance or firm value.

4.3 Discussion

Relational capital disclosure (RCD) demonstrated a positive and significant relationship with Tobin Q (β=2.930976, $P<0.05$), explaining 27.53% of the variance (R^2=0.2753). This implies a unit increase in RCD results in a 2.930976-unit increase in Tobin Q, supporting findings by Bianchi-Martini et al. (2016) and Siddiqui and Asadi (2014) regarding the positive impact of relational capital on business performance.

5.0 Summary, Conclusions and Recommendations

The disclosure of relational capital within Nairobi Security Exchange (NSE) listed companies over a period spanning from 2017 to 2021. It indicates that the average relational capital disclosure index peaked at 54.0% in 2017 and reached a minimum average of 47.9%. Overall, the average index stood at 50.4%, suggesting a moderate level of relational capital disclosure in financial reports, with a range from a low of 12.5% to a high of 100%. The wide standard deviation of 23.9% and a resulting coefficient of variation of 47.4% indicate significant variability in disclosure levels among companies, surpassing the preferred range of 20% to 30%. Comparatively, relational capital disclosure tends to be lower than human capital disclosure across NSE listed firms. There was declining trend in relational capital disclosure from 2017 to 2020, with a slight improvement noted in 2021. This trend might be influenced by macro environmental factors affecting stakeholders such as suppliers, consumers, and investors.

The findings indicate that relational capital disclosure (RCD) exhibits a positive and statistically significant relationship with Tobin Q. Tobin Q, the results show a significant positive relationship (β=2.930976, $P<0.05$) with approximately 27.53% of Tobin Q variation attributed to RCD, while 72.47% is influenced by other variables (R^2=0.2753). This indicates that increasing RCD leads to a substantial increase in Tobin Q, emphasizing the importance of RCD in enhancing a firm's firm value as measured by Tobin Q.

The study that relational capital disclosure demonstrates a positive and statistically significant relationship Tobin Q, underscoring its importance in driving firm value. The findings suggest that an increase in relational capital disclosure leads to notable improvements in Tobin Q, implying that enhancing relational capital disclosure positively impacts firm profitability and market value. This emphasizes the need for NSE listed companies to prioritize transparent reporting of relational capital information, as it can significantly influence firm value metrics and ultimately contribute to overall business success.

Secondly, the study recommends management to prioritize efforts to enhance relational capital disclosure in their financial reports, as this can lead to notable improvements in profitability and market value. Additionally, policymakers should consider implementing regulations that encourage and standardize transparent reporting practices across all NSE listed companies, thereby fostering a more conducive environment for sustainable business growth and market efficiency. By prioritizing transparent disclosure of relational capital information, both management and policymakers can contribute to fostering investor confidence, improving decision-making processes, and ultimately enhancing the overall competitiveness and success of NSE listed companies.

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