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Abstract

This study investigates how human capital disclosure and audit committee size affect the value of firms listed on Kenya's NSE, addressing gaps in human capital disclosure in emerging markets and guided by human capital theory and agency theory. The study adopted longitudinal research design, targeting 62 firms listed on the Nairobi Securities Exchange (NSE) between 2017 and 2021. A census approach was employed, with 53 firms meeting the inclusion criteria, resulting in a 91.4% response rate and 265 observations from 290 panel data points. Secondary data was gathered using a data extraction tool, and analysis involved both descriptive and inferential statistics. Correlation analysis explored variable relationships, while fixed-random regression analysis tested hypotheses using panel data. Based on Hausman test, random effect model was selected which showed that human capital disclosure ($\beta = 1.405$, $p\text{-value} = 0.000 < 0.01$), had a significant positive effect on firm value. The hierarchical random-effects regression analysis revealed that audit committee size significantly moderates the relationships between human capital disclosure and firm value ($\beta = 1.79$, $p < 0.01$, $R^2\Delta = 0.001$). The study concludes that human capital disclosure is a pivotal factor in enhancing the firm value of listed companies. Furthermore, the findings suggest that firms with larger audit committees are better equipped to effectively utilize their human capital disclosures to bolster firm value. As a result, the study recommends that organizations prioritize strengthening the size and capacity of their audit committees. This enhancement can promote more transparent and effective human capital disclosures, ultimately contributing to improved firm value and overall organizational performance.

Keywords: *Human Capital Disclosure, Audit Committee Size, Firms Listed, NSE, Firm Value*

1.0 Introduction

Firm value serves as a crucial metric for assessing a firm's economic health and overall performance, indicating its capacity to deliver returns for shareholders and maintain a competitive edge (Ubaidillah et al., 2024). Despite its importance, numerous firms struggle to enhance their value. Stability in firm value is a widespread issue, particularly noted in Western corporations, including high-performing U.S. firms, which have seen declines since World War II and more markedly since 2015 (Hendratama & Huang, 2021). UK manufacturing firms, for instance, reported low median firm values of just 6.3% of total assets in 2018, down from an average of 8.5% (Sitanggang et al., 2020). In Africa, nearly a third of listed firms exhibited low firm values, with market capitalization averaging only 8-10% of GDP (Asngar et al., 2022), and Nigeria has witnessed a decline in firm value from the 1960s (Chukwudi et al., 2020). Understanding the factors that influence firm value is therefore essential. In the context of globalization and the information economy, human capital has emerged as a critical determinant for business competitiveness and long-term sustainability (Innayah et al., 2023; Pamungkas & Meini, 2023; Subaida et al., 2018; Putra & Ratnadi, 2021). The increasing emphasis on knowledge-based economies highlights the need for investment in human capital amid constant innovation and economic fluctuations (Adegbayibi, 2021). Contemporary business dynamics in both developed and developing nations are rapidly evolving, emphasizing that substantial success requires not only tangible assets but also intangible ones such as knowledge, processes, and employee expertise (Mollah & Rouf, 2022).

Human capital disclosure pertains to the reporting of the skills, competencies, experiences, and knowledge that employees contribute to the organization. This form of disclosure highlights the importance of investing in human resources through various initiatives, including training programs, professional development, and other innovative practices. Transparency in human capital disclosure enables firms to demonstrate their commitment to employee development and how these investments translate into competitive advantages in the market (Usman & Wirawan, 2021). According to Rahman and Akhter (2021), human capital is the most critical component of intellectual capital, and effective reporting of this asset is essential for maximizing financial performance. Furthermore, human capital disclosures play a vital role in ensuring accountability, as outlined by Tejedo-Romero and Araujo (2022), and are crucial for organizations aiming for sustainable growth. In Africa, the disclosure of human capital has not yet received the attention it merits, despite its potential to enhance firm value significantly. Integrated reporting represents one of the newer reforms in non-financial reporting that several African countries have begun to implement. In Nigeria, a study by Lawal et al. (2024) examined revealed that disclosures related to human capital positively contributed to enhancing firm value, whereas relational capital disclosures did not show a similar effect. Moreover, research conducted in Ghana by Baghr et al. (2019) found a significant positive relationship between human disclosure were positively correlated with market capitalization, emphasizing the importance of holistic intellectual capital reporting. Furthermore, a report by Baba & Baba (2021) highlighted a growing trend among Nigerian companies to engage in intellectual capital disclosure, with evidence suggesting those implementing human resource accounting experienced superior firm value compared to those that

did not. Additionally, Adewumi et al. (2021) showed that manufacturing firms in Nigeria that practiced human resource disclosure achieved financial performance that was 5% above the average. Consequently, there is a growing interest among scholars in Africa to understand how human capital disclosure practices can enhance transparency, accountability, and overall firm value.

In addition, a well-functioning audit committee is a crucial element of effective corporate governance and can significantly enhance a firm's value (Rahman et al., 2019). Essential characteristics of a successful audit committee include its size, (Ashari & Krismiaji, 2020;). According to Al Farooque et al. (2019), an independent audit committee enhances the board's ability to monitor operations, leading to improved organizational results and increased wealth for shareholders. Research has shown that audit committee characteristics can have varied effects on firm value. Dakhilallh (2020) found that the effectiveness of an audit committee grows with its size, provided the firm has the necessary capabilities. According to Alqatamin (2018), a well-constituted audit committee maximizes the knowledge and expertise of its members. Khafid and Alifia (2019) contend that audit committees prevent management from operating organizations and exchanging information in ways that may not align with the firm's best interests.

In Kenya, several listed companies have faced financial reorganization, receivership, trading suspension, or delisting, prompting significant efforts to rescue or dissolve them through financial restructuring (Ayako, Kungu, & Githui, 2015). According to the Capital Markets Authority (CMA) report (2022), the number of publicly traded companies issuing profit warnings rose steadily from 8 in 2018 to 18 in 2021, underscoring the need for mandatory continuous disclosure amid rapidly evolving business environments. Consequently, companies have been re-engineering corporate reporting practices to enhance transparency and attract investment (Bananuka et al., 2019). With around 20% of investors coming from outside East Africa, robust corporate reporting has become critical to fostering sound investment decisions (Injeni et al., 2019; CMA, 2018).

As businesses adapt to the "new normal" characterized by knowledge and technology-driven growth, human capital has become a pivotal asset. Despite its significance, the role of human capital disclosure in influencing firm value on the Nairobi Securities Exchange (NSE) remains a topic of debate. While existing studies often highlight a positive link between human capital disclosure and firm value, this relationship remains ambiguous in emerging markets like Kenya, where intellectual capital disclosure is both voluntary and frequently inadequate. Moreover, findings are not uniformly positive; for example, Bangara et al. (2024) reported a statistically significant negative effect of human capital disclosure on firm value among Kenyan listed companies. This divergence raises critical questions about the contexts in which human capital information is disclosed and interpreted, emphasizing the importance of the quality and depth of disclosures in determining their impact on firm value. The inconsistencies in disclosure practices also reflect a broader lack of empirical evidence regarding their benefits and influence on firm performance. Additionally, there is limited research examining how audit committee size moderates the relationship between intellectual capital disclosure and firm value. This study seeks to bridge these gaps by investigating the interplay between intellectual capital disclosure, audit

committee characteristics, and firm value among NSE-listed firms. The findings aim to offer deeper insights into how these factors collectively shape corporate performance and governance in the Kenyan context.

2.0 Theoretical Framework

Human capital theory, initially developed by Schultz (1961) and Becker (1964), emphasizes the critical role of employee knowledge, skills, and expertise in fostering organizational growth and competitiveness. This theory posits that investments in human resources, such as education, training, and professional development, are integral to enhancing organizational capabilities and achieving long-term profitability (Olajide, Tunde-Awe, & Kayode, 2018). By equipping employees with advanced competencies, organizations can improve their operational efficiency, adapt to changing market demands, and create sustainable value. The theory also aligns with the resource-based view (RBV) of the firm, which argues that organizations gain a competitive advantage by leveraging unique, valuable, and inimitable resources, including human capital (Barney, 2002). Scholars such as Mishra and Mishra (2018) have extended this perspective by highlighting the importance of human capital investments in knowledge-intensive industries like banking, technology, and services, where employee expertise directly influences organizational performance.

In the context of human capital disclosure, Ullah, Hossain, and Adams (2020) assert that providing detailed information about employee skills, capabilities, and contributions enhances transparency and supports informed decision-making by stakeholders. These disclosures are particularly important in markets like Kenya, where intellectual capital is a significant driver of firm value but disclosure practices remain voluntary and inconsistent. By revealing the extent of their human capital investments, firms can signal their commitment to innovation and operational excellence, thereby building investor confidence and improving market valuations. For companies listed on the Nairobi Securities Exchange (NSE), understanding the link between human capital disclosure and firm value can offer valuable insights into how these practices influence market performance. Human capital theory thus serves as a foundational framework for exploring the strategic importance of intellectual capital disclosures in the Kenyan context (Elbannan & Farooq, 2016).

In addition, Agency theory, formulated by Jensen and Meckling (1976), addresses the inherent conflicts of interest between shareholders (principals) and managers (agents) due to differing objectives and levels of information access. This theory highlights the challenges of information asymmetry, where managers, possessing greater knowledge of the firm's operations, may prioritize their own interests over those of shareholders. To mitigate these conflicts, governance mechanisms such as audit committees play a critical role in overseeing managerial actions and ensuring the reliability of disclosures. Intellectual capital disclosure, particularly in the form of detailed information about human capital, is one way to reduce information asymmetry and align managerial actions with shareholder interests (Asiaei, Bontis, Alizadeh, & Yaghoubi, 2022). By providing transparent insights into the firm's intellectual resources, managers can demonstrate their commitment to accountability and foster greater trust among investors. The size of the audit

committee is particularly significant in the context of agency theory, as larger committees tend to have a broader pool of expertise and greater capacity to oversee complex financial and non-financial disclosures. Larger audit committees are often associated with improved monitoring efficiency and stronger internal controls, which can enhance the quality of human capital disclosures (Bouaziz, 2020). For instance, they may facilitate the disclosure of detailed information about human capital, thereby reducing agency costs and improving investor confidence (Quattrone, 2022). This study applies agency theory to analyze how audit committee size moderates the relationship between intellectual capital disclosure and firm value for companies listed on the Nairobi Securities Exchange (NSE). In examining the interaction between audit committee size and disclosure practices, the study aims to provide insights into how governance structures influence the effectiveness of intellectual capital reporting in enhancing firm value. This perspective not only addresses the principal-agent dilemma but also underscores the importance of robust audit committees in ensuring transparency and accountability in corporate governance.

3.0 Review Of Literature (Hypothesis Development)

The studies collectively provide a nuanced understanding of the relationship between human capital disclosures and firm value across diverse contexts and regions. Pamungkas and Meini (2023) analysed data from 32 firms listed on the Indonesia Stock Exchange and found contrasting impacts of human capital and intellectual capital disclosures on firm value, suggesting stakeholders respond differently to these disclosure types. However, their focus on human capital disclosures alone limits the broader applicability of their findings. Similarly, Subaida et al. (2018) emphasized the positive influence of human capital disclosures on corporate value using Tobin's Q, but their findings may not fully account for recent market dynamics and technological advancements. Putra and Ratnadi (2021) highlighted the role of transparency in human capital disclosures within Indonesia's banking sector, showing a positive impact on firm value. However, their study's sector-specific scope may not generalize to other industries. Salvi et al. (2022) extended this conversation by demonstrating that enhanced human capital disclosures in integrated reports positively affected firm value and reduced capital costs. Yet, their study did not establish causality between disclosure and firm value, leaving room for further exploration of this dynamic.

Bangara et al. (2024) compared human capital disclosure impacts on firm value in Kenya and South Africa, revealing regional differences. While disclosures positively influenced firm value in South Africa, the opposite was observed in Kenya, suggesting contextual factors play a critical role. Hieu et al. (2022) supported the positive relationship between human capital disclosure and firm value in Vietnam, leveraging stakeholder and signaling theories. However, their reliance on multiple regression limited insights into temporal dynamics, which the current study seeks to address. Studies in Nigeria, such as those by Adewumi et al. (2021) and Olajide et al. (2018), examined human resource disclosures' impact on shareholder and financial performance. Their findings consistently showed positive correlations, advocating for robust disclosure practices. However, sector-specific sampling constrained their generalizability. In contrast, the current study, using a broader scope of firms across all industries in Kenya, hypothesizes:

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H1: human capital disclosure significantly and positively affect firms' value

Research on the relationship between audit committee size, intellectual capital disclosure (ICD), and firm value has yielded varied insights across different industries and contexts. Uzliawati and Djati (2015) found that a larger audit committee positively impacts ICD and firm value, emphasizing that structural capital management enhances valuation. Their study highlights the importance of audit committee independence in fostering transparency and driving value creation through intellectual capital reporting. Similarly, Balasundaram (2019) established that audit committee size significantly influences relational and structural capital disclosures among Sri Lankan firms listed on the Colombo Stock Exchange. However, the study also revealed a negative relationship between audit committee independence and ICD, suggesting potential complexities in governance structures.

Naimah and Mukti (2019) focused on LQ45 firms in Indonesia and discovered that while audit committee size does not directly influence ICD, the frequency of meetings positively affects disclosure levels. This finding underscores the role of active engagement over mere structural attributes in enhancing ICD. Solikhah et al. (2020) expanded on this by examining the moderating role of audit committee size in the relationship between ICD and firm value among Indonesian commercial banks. They reported that both audit committee size and meeting frequency positively influence market value, aligning with findings that effective audit committee governance can enhance intellectual capital reporting quality.

However, contrasting evidence exists in sector-specific studies. For example, Kurniawanti and Fitriasari (2024) found no significant effect of audit committee size on ICD in the tourism sector. Similarly, Qeshta et al. (2024) identified that while audit committee independence and expertise significantly influence ICD in Bahraini conventional banks, audit committee size does not. These findings suggest that the impact of audit committee size on ICD may vary depending on industry characteristics and governance practices. Based on these insights, the hypothesis is proposed:

H2: Audit committee size moderates the relationship between intellectual capital disclosure and firm value.

4.0 Methodology

This study was grounded in positivist philosophy, which emphasizes a deterministic approach to uncovering cause-and-effect relationships using scientific methods. Leon and Rodriguez (2015) argue that human capital can be objectively assessed and its visible aspects captured to project future value in the context of corporate governance and firm value. Adopting a correlational and longitudinal research design, this study leveraged the availability of audited annual reports to examine the relationships among intellectual capital disclosure, audit committee characteristics, and firm value. Secondary data were collected from the annual reports of NSE-listed firms for the period 2017 to 2021.

Sampling

This study targeted 62 firms listed on the Nairobi Securities Exchange (NSE) as of December 31, 2021 (NSE, 2021). These firms were chosen due to their substantial resources for implementing intellectual capital (IC) disclosure practices and the accessibility of their annual reports on the NSE website. The study examined both the pre-COVID-19 (2017–2019) and post-COVID-19 (2019–2021) periods to assess resilience and pandemic impacts. A census approach was used, excluding four firms for a pilot study, leaving 58 firms as the final sample. This provided 290 panel data observations (58 firms × 5 years). Firms delisted or registered between 2017 and 2021 were excluded.

Data Collection Instruments

This study utilized secondary data collected through a data extraction tool. Content analysis of annual reports was conducted to develop an intellectual capital disclosure (ICD) index, employing a dichotomous scale: "0" indicated no evidence, and "1" indicated evidence of a specific indicator. The ICD index comprised 42 items categorized into three dimensions: human capital disclosure (15 items), relational capital disclosure (16 items), and structural capital disclosure (11 items). Data on audit committee characteristics, including the number of independent directors and the size of the audit committee, were extracted from annual reports. Firm value data were also obtained from annual financial reports, which provided details on total assets, book value, and market value of equity. These components were used to measure firm value and analyze the relationship between intellectual capital disclosure, audit committee size, and firm value.

Data Analysis and model specification

The collected research data was carefully reviewed for errors and omissions before being coded, defined, and entered into STATA for analysis. Descriptive statistics, including means, standard deviations, kurtosis, and skewness, were employed to summarize and characterize the data. In addition to descriptive analysis, inferential statistics such as Pearson correlation and regression analysis were applied. Panel data analysis was utilized to test the study hypotheses, leveraging the Fixed Effects Model (FEM) and Random Effects Model (REM). The Hausman test (Lee, 2008) was conducted to determine the appropriate model. hierarchical regression models were employed in the analysis, following the framework proposed by Baron and Kenny (1986). Hypotheses were tested using hierarchical linear regression, as outlined in the specified equations, to explore the relationships and interactions among variables effectively.

For testing Direct effect of intellectual capital on firm value

$$FVit = \beta_{0it} + \beta_1 fs_{it} + e_{1it} \dots \dots \dots (eqn1)$$

$$FVit = \beta_{0it} + \beta_1 fs_{it} + \beta_2 HCD_{it} + e_{2it} \dots \dots \dots (eqn2)$$

$$FVit = \beta_{0it} + \beta_1 fs_{it} + \beta_2 HCD_{it} + \beta_5 ACS_{it} + e_{3it} \dots \dots \dots (eqn3)$$

$$FVit = \beta_{0it} + \beta_1 fs_{it} + \beta_2 HCD_{it} + \beta_5 ACS_{it} + \beta_6 HCD * ACS_{it} + e_{3it} \dots \dots \dots (eqn4)$$

Where, FV Measure of firm value, β_0 The constant of equation (represents the changes in firm value that cannot be explained by independent variables in the model), HCD = Human Capital Disclosure, ACS = Audit committee size, ε = Error term, i = Represent the firm observation, t = Measure of time, $HCD \times ACS$ = Human Capital Disclosure* Audit committee size.

Table 1: Summary of Measure of Variables

Variables	Symbols	Measurement	Empirical Studies
Dependent Variable			
Firm Value	FV	Tobin Q Number of Total Debts (TD) and Total Market Capitalization (MC) scaled by Total Assets (TA) $Q = (TD + MC) / TA$	Hejazi et al. (2016) Alfraih (2018)
Human Capital Disclosure,	HC	If an item is disclosed, then '1' else '0'. This provided actual score per firm per year which can be calculated by variable in percentage as follows; $Index = \frac{Actual\ Score}{Total\ Score} \times 100$	Muttakin, Khan, and Belal (2017). Anifowose (2020)
Moderating Variable			
Audit committee size		Total number of members of audit committee (AC) and total number of the board members (BM) $SAC = \frac{AC}{BM} \times 100$	
Control Variable			
Firm Size	FS	natural log of total assets	Laeven et al (2014)

5.0 Results

In this section, the study's data analysis and findings are discussed, aligning with the study objectives.

Descriptive Statistics

Descriptive analysis allows researchers to gain insights into the distribution of variables across different time periods and entities (individuals, firms etc.) in the panel. The results in Table 2 highlight the importance of key variables—firm value (FV), human capital disclosure (HCD), audit committee size (ACS), and firm size (FS). Firm value, with a mean of 1.27, showed high variability due to outliers, reflecting dynamic market conditions. HCD had a mean of 0.61, indicating moderate disclosure levels, though significant outliers were present. ACS averaged 74%, showing consistent governance practices, while FS had a mean of 7.04, reflecting stable firm sizes with minimal variability. Correlation analysis revealed a strong positive relationship between FV and HCD ($r = 0.681$, $p < 0.01$), indicating that transparent human capital reporting enhances

market valuation. ACS showed a moderate positive correlation with FV ($r = 0.264$, $p < 0.01$), suggesting governance positively influences value, albeit less significantly than HCD. FS exhibited a weak negative correlation with FV ($r = -0.141$, $p < 0.05$), implying that larger firms may not necessarily achieve higher valuations.

Table 2: Descriptive Results

Year	Obs.	Min	Max	Mean	SD	FV	HCD	ACI	FS
FV	265	0.13	7	1.27	1.12	1			
HCD	265	0.13	1	0.61	0.22	.681**	1		
ACS	265	0.19	1	0.74	0.23	.130*	0.065	1	
FS)	265	4.46	9.59	7.04	1.21	-.141*	-.185**	.163**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Unit Root Test

The unit root test results confirm that the variables—firm value (FV), human capital disclosure (HCD), audit committee size (ACS), and firm size (FS)—are stationary at levels (I(0)), indicating consistent statistical properties over time. Using Fisher-type tests, including inverse chi-squared, inverse normal, inverse logit t, and modified inverse chi-squared tests, most p-values are less than 0.05, leading to the rejection of the null hypothesis that the variables contain unit roots (Beenstock & Felsenstein, 2019; Marinov, 2021). For FV and HCD, all p-values are 0.000, demonstrating strong stationarity, while ACS and FS also exhibit stationarity with minor variations, such as a higher p-value (0.905) for FS in the inverse normal test. These findings underscore the variables' suitability for regression analysis and provide a reliable basis for further empirical modeling and statistical inference (Marinov, 2021).

Table 3: Unit root test Results

		Inverse chi-squared (60)	Inverse normal	Inverse logit t (154)	Modified inv. chi-squared
		P	Z	L*	Pm
FV	Statistic	413.684	-4.696	-11.152	21.132
	p-value	0.000	0.000	0.000	0.000
HCD	Statistic	360.448	-5.087	-10.395	17.476
	p-value	0.000	0.000	0.000	0.000
ACS	Statistic	151.013	-2.672	-5.156	8.308
	p-value	0.000	0.004	0.000	0.000
FS	Statistic	254.872	1.313	-2.526	10.225
	p-value	0.000	0.905	0.006	0.000

Hierarchical Random Effects GLS Regression

The diagnostic tests confirmed the robustness of the panel regression model used in analyzing the relationship between human capital disclosure (HCD), audit committee size (ACS), and firm value (FV) for firms listed on the Nairobi Securities Exchange. To ensure the model met the assumptions of classical linear regression, a series of tests were conducted. The normality of residuals was validated using the Jarque-Bera test, which yielded a $\chi^2(2)$ value of 3.26 with a p-value of 0.1959. This non-significant result confirmed that the residuals were normally distributed, allowing the null hypothesis of normality to be upheld. Multicollinearity was evaluated using the variance inflation factor (VIF), resulting in a mean VIF of 2.12, well below the threshold of 10. This finding indicated that there was no significant multi-collinearity among the independent variables, ensuring that each variable contributed uniquely to the model without redundancy. Homoscedasticity was tested using White's test, which produced a $\chi^2(1)$ value of 32.29 with a p-value of 0.2214, confirming that the variance of residuals was consistent across levels of the independent variables. The absence of first-order autocorrelation was validated through the Wooldridge test, with an F-statistic of 11.109 and a p-value of 0.0581, indicating that error terms were independent across time periods. Finally, the Hausman test for model selection ($\chi^2 = 0.14$, $p = 0.9977$) demonstrated that the random-effects model was the most appropriate for analyzing the data.

The regression analysis provided significant insights into the relationship between human capital disclosure, audit committee size, and firm value. The overall R-squared value of the random-effects model was 0.553, indicating that 55.3% of the variation in firm value could be explained by the independent variables in the model. This suggests that the variables included in the study—such as human capital disclosure and audit committee size—play a significant role in influencing firm value. The within R-squared value of 0.464 and the between R-squared value of 0.574 further illustrate the model's ability to capture variability in firm value within and between firms, respectively. These high R-squared values underscore the explanatory power of the model and its suitability for analyzing the impact of human capital disclosure on firm value in the Kenyan context.

The results from hypothesis testing further revealed important relationships. For H1, the hypothesis that human capital disclosure significantly and positively affects firm value, the findings showed a statistically significant positive relationship between HCD and FV ($\beta = 1.405$, $p < 0.01$). The p-value being less than the 0.05 significance level led to the rejection of the null hypothesis (H01). This demonstrates that firms that provide transparent and detailed disclosures about their human capital are likely to achieve higher market valuations. This positive association highlights the importance of human capital as a strategic asset that influences investor confidence and enhances firm performance. The emphasis on human capital disclosures aligns with the growing recognition of intangible assets in driving long-term value creation for firms.

For H2, which posited that audit committee size moderates the relationship between human capital disclosure and firm value, the findings also supported this hypothesis. The interaction term

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between HCD and ACS was statistically significant ($\beta = 1.79$, $p < 0.01$), indicating that audit committee size enhances the positive impact of human capital disclosure on firm value. The introduction of ACS into the regression model led to a 0.1% increase in R-squared ($\Delta R^2 = 0.001$), signifying that the moderating effect of audit committee size strengthened the model's explanatory power. Larger audit committees are often associated with enhanced governance and oversight, which can amplify the benefits of transparent human capital reporting. This result underscores the critical role of governance structures in leveraging disclosures to improve firm outcomes.

Table 4: Hierarchical Random Effect Regression Results

Variable	Model 1	Model 2	Model 3	Model 4
Firm value (FV)	β (se)	β (se)	β (se)	β (se)
	-1.70 (0.42)	-0.72 (0.35)	-1.35 (0.39)	
Constant	**	*	**	-0.51 (0.40)
Firm Size (FS)	-0.06 (0.56)	-0.03(0.04)	-0.03 (0.04)	-0.03 (0.04)
		1.40 (0.24)	1.37 (0.24)	
Human Capital Disclosure	-	**	**	-0.03(0.36)
Audit committee Size	-	-	0.95 (0.27) *	-0.17 (0.34)
				1.79 (0.35)
HCD*ACS	-	-	-	**
R-sq.	0.02	0.553	0.578	0.579
R-sq. Change	0.00	0.533	0.025	0.001
Wald Chi-squared (2)	1.15	248.49	269.38	320.32
Prob > Chi-squared	0.280	0.000	0.000	0.000
Jarque-Bera normality test	3.26	Chi (2)	0.1959	
Multicollinearity; Mean VIF	2.12			
White's test for Homoscedasticity				
Chi2(1)	32.29	Prob > chi2	0.2214	
Wooldridge test for autocorrelation F(1, 52)	11.109	Prob > F	0.0581	
Hausman Test for Model Selection (chi2)	0.14	Prob>chi2	0.9977	

The research utilized a moderation graph, as suggested by Jose (2016) and guided by Aiken and West (1991), to illustrate the moderating effects of audit committee size. The graph depicted the interaction between human capital disclosures and firm value across varying levels of audit committee size. Figure 1 demonstrated that higher audit committee size levels resulted in steeper slopes for the relationships between these disclosures and firm value. Specifically, firms with larger audit committees showed a stronger positive impact of human capital disclosure on firm value, suggesting enhanced governance facilitates the effective utilization of disclosed information.

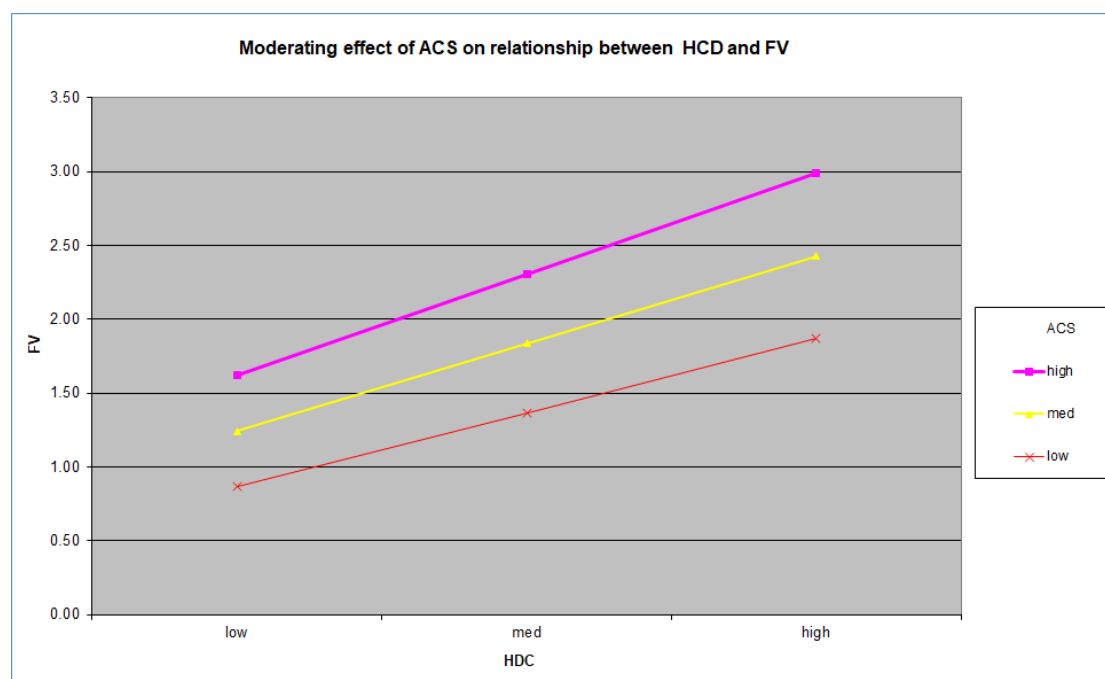


Figure 1: Mod graph Moderating effect of Audit Committee Size on Relationship between Human Capital Disclosure and Firm value

6.0 Discussions

The findings reveal a statistically significant positive relationship between human capital disclosure and firm value ($\beta=1.405$, $p < 0.01$), indicating that greater transparency in human capital practices enhances market performance. This aligns with Subaida et al. (2018), who emphasized that human capital disclosure increases corporate value, underscoring the strategic importance of communicating human resource contributions effectively. Similarly, Putra and Ratnadi (2021) highlighted the positive impact of such disclosures, suggesting they enhance market perceptions and firm value. However, contrasting evidence complicates this relationship. Pamungkas and Meini (2023) identified a nuanced dynamic where human capital disclosures negatively affected business value, while intellectual capital disclosures had a positive effect. Bangara et al. (2024) also reported regional disparities: while human capital disclosures positively influenced firm value in South Africa, they negatively impacted firms in Kenya, highlighting the role of local market conditions and investor behavior. Studies like Hieu et al. (2022), Adewumi et al. (2021), and Olajide et al. (2018) support the broader notion that human capital disclosures can shape investor perceptions and enhance financial performance, albeit within specific contexts. These findings suggest that the impact of human capital disclosure on firm value is influenced by various factors, including disclosure type, regional contexts, and investor attitudes, necessitating a tailored approach to intellectual capital reporting.

The findings suggest that audit committee size significantly enhances the relationship between human capital disclosure and firm value ($\beta = 1.79$, $p < 0.01$). This indicates that larger audit committees strengthen the positive impact that human capital disclosure has on firm value. This aligns with the work of Uzliawati and Djati (2015), who found a positive association between the proportion of independent audit committee members and firm value, indicating that effective management of structural capital enhances firm valuation. The importance of audit committee size in this context reinforces the view that greater oversight and diverse perspectives can contribute positively to firm value. Additionally, the results reveal a significant moderating effect of audit committee size on the relationship between relational capital disclosure and firm value ($\beta = 2.11$, $p < 0.05$). This finding suggests that firms with larger audit committees are better positioned to leverage their relational capital disclosures to enhance firm value. This is supported by Solikhah et al. (2020), whose research indicated that both the size of the audit committee positively impact market value. In this respect, effective audit committees could significantly aid firms in optimizing their relational disclosures, which is crucial for maintaining stakeholder relationships.

7.0 Conclusions

Based on the findings, human capital disclosure is crucial for enhancing firm value. Higher levels of disclosure regarding employee compensation, diversity and inclusion, skills development, occupational health and safety, organizational culture, and productivity are strongly associated with improved firm valuation. This underscores the importance of transparency and investment in human resources, as a skilled, diverse, and healthy workforce significantly contributes to an organization's success. Therefore, firms should prioritize and effectively communicate their human capital strategies to strengthen stakeholder confidence and enhance performance in the competitive marketplace. A larger audit committee enhances oversight and supports the effective communication of human capital and relational capital disclosures, thereby strengthening the positive impact of these disclosures on firm value.

8.0 Implications for Managerial Practice and Policy

Based on the conclusion that human capital disclosure significantly enhances firm value, it is recommended that regulatory bodies, such as the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE), establish mandatory guidelines for comprehensive human capital reporting. These guidelines should require firms to disclose standardized information on critical aspects such as employee compensation, diversity, training initiatives, and overall employee well-being. This will ensure transparency and provide investors and stakeholders with a clearer understanding of a firm's human capital value. Furthermore, policies should promote larger, independent audit committees with clear responsibilities to enhance governance effectiveness.

Finance and accounting professionals should adopt best practices in human capital reporting by incorporating key performance indicators (KPIs) that reflect employee performance, training efforts, and development outcomes. Management teams of listed firms should prioritize investments in human capital development and ensure transparent communication of these initiatives. By regularly reviewing and enhancing human capital strategies, and actively involving

employees in the reporting process, firms can improve stakeholder trust and market performance. Additionally, financial professionals should advocate for robust audit committee structures, including ongoing training for members to strengthen their governance capabilities. Firms should regularly evaluate audit committee performance and independence to ensure alignment with governance best practices.

For managers, the findings underscore the importance of emphasizing human capital as a strategic asset. By integrating comprehensive human capital reporting into corporate practices, firms can better communicate their value proposition to stakeholders. Managers are also encouraged to foster a culture of transparency and accountability by collaborating with independent, well-trained audit committees that strengthen governance structures. These measures are likely to enhance investor confidence and support sustainable growth.

The study highlights the need for robust regulatory frameworks to guide human capital disclosure and audit committee governance. By standardizing disclosure requirements and promoting larger audit committees with independent members, policymakers can help firms improve transparency and accountability. Such measures can increase investor confidence and contribute to the stability of capital markets.

9.0 Implications for Theory

This study contributes to the existing body of knowledge by providing a comprehensive framework that integrates human capital disclosure as a determinant of firm value. It extends Human Capital Theory by illustrating the critical role of transparent human capital management in enhancing a firm's reputation and perceived value. Additionally, the study introduces a novel model demonstrating the moderating effect of audit committee size on the relationship between human capital disclosure and firm value. This aligns with Agency Theory, emphasizing the role of governance structures in aligning management and stakeholder interests.

10.0 Limitations and Suggestion for Further Research

This study offers valuable insights into the impact of human capital disclosure on firm value and the moderating role of audit committee size. However, there are several limitations that future research could address. First, expanding the scope to include other forms of intellectual capital, such as innovation and social capital, would provide a more comprehensive analysis. Second, extending the study period beyond the five years (2017–2021) would allow for the exploration of longer-term trends. Lastly, replicating the study with unlisted firms could enhance the generalizability of the findings across different market contexts.

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