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The Effect of Non-financial Asset Disclosures on Market Returns of Manufacturing Firms at Nairobi Securities Exchange in Kenya

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Abstract
This study examined the effect of non-financial asset disclosures on the market returns of manufacturing firms listed on the Nairobi Securities Exchange (NSE) in Kenya. The research was motivated by the increasing demand for transparency in corporate reporting, particularly in emerging markets where non-financial disclosures are often underreported. Using a sample of 8NSE-listed manufacturing firms, the study employed simple linear regression to assess the relationship between non-financial asset disclosure impact and market returns. The findings revealed a statistically significant but modest positive relationship ($R = 0.290$; $R^2 = 0.084$; $p = 0.033$), indicating that non-financial disclosures explain approximately 8.4% of the variance in market returns. These results suggest that while such disclosures do influence investor confidence and firm valuation, other factors contribute more substantially to market performance. The study concludes that enhanced transparency in non-financial reporting can serve as a strategic tool for firms aiming to improve market returns. It recommends the adoption of standardized reporting frameworks like the Global Reporting Initiative (GRI) and Integrated Reporting (IR) to better align corporate disclosures with stakeholder expectations and long-term firm value.

Keywords: Non-financial Asset Disclosures, Market Returns, Manufacturing Firms Listed, Nairobi Securities Exchange (Nse).

1. Introduction

Non-financial disclosure is crucial for users concerned with both produced and non-produced assets, such as buildings, tractors, shareholders, investors, and other asset managers. Providing comprehensive firm information positively impacts stock market returns and reduces the risk of claims related to inadequate disclosure in financial statements. This is especially relevant for sectors like insurance, construction, and allied industries. Firms that offer extensive non-produced asset disclosures reduce information asymmetry among managers, owners, and agents, achieving this at a lower cost. These disclosures, aligned with generally accepted accounting principles and general management disclosures, enhance transparency and performance measurement (Muriugi, 2016).

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Disclosures typically include asset value given deal to the comprehensive state view the accurate value, as well as information about significant changes in financial liabilities on reporting period, such the new borrowings or repayments. Transparency in disclosing liabilities fosters trust among investors. Investor analyze financial liabilities as the liability data for choosing relevant decision on investment and lending, they are more likely to invest, positively influencing market returns (Mcdonough, Panaretou and Shakespare 2020).

Detailed disclosures enable investors in assessing and identifying risk exposures for the right investment knowledge to invest or not. The market reacts to disclosed information; for example, if a company reveals unexpectedly high liabilities, stock prices might drop as investors reassess their valuations. Conversely, favorable financial liability disclosures can lead to positive market reactions (Al Amosh 2022).

Market return serves as a crucial disclosure for users of financial statements, particularly investors seeking to gain insight into the status of their invested market shares and the financial performance of companies. For instance, banks often provide detailed financial statements to empower investors in making decisions regarding expansion or retention of their investments. These financial disclosures adhere to two primary standards using GAAP and IFRS. Complying with accounting standards promotes consistency and transparency in enhancing efficiency and confidence for investors (Schuster and O'Connell, 2016).

Market returns, encompassing factors like price issues and earnings, have been witnessing declines, encouraging restrained market responses to the disclosure (Guillaume, 2017). This increased asymmetry highlights the true value and encourages investors to be more cautious with their investments. Manufacturing firms are facing challenges in the current economic environment, evident in low economic efficiency in market share and reduced profitability. These challenges stem from various factors such as high production costs, poor asset income ratios, low investment rates, excessive debts, solvency issues, and poor asset quality (Javed, Aksar, Naeem, Sufyani 2023).

The problem addressed in this study revolves around the impact of non-financial asset disclosures on market returns for manufacturing firms listed on the Nairobi Securities Exchange (NSE). Despite the increasing importance of transparency in corporate reporting, recent statistical studies have shown inconsistent effects of non-financial asset disclosures on market performance.

1.2 Statement of the problem

Manufacturing firms in emerging markets, particularly in Kenya, often underreport or fail to disclose crucial non-financial assets, potentially leading to misinformed investment decisions. This gap in reporting and its implications for investor returns necessitates a thorough investigation to understand the dynamics between disclosure practices and market reactions.Recent studies have highlighted a concerning trend among manufacturing firms listed on the Nairobi Securities Exchange (NSE): a significant underreporting or lack of disclosure of

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non-financial assets, such as intellectual property, brand value, and human capital. This gap in reporting may contribute to misinformed investment decisions and suboptimal market returns. The study by Morang'a et al. (2024) found that financial leverage, including factors like debt intensity and interest obligations, negatively impacts market returns of manufacturing firms at the NSE. The study suggests that firms should use debt financing judiciously, ensuring that borrowed funds are utilized to enhance asset utilization, thereby potentially improving market returns. Moreover, research by Ouma and Onchangwa (2024) indicates that while financial information disclosure positively influences financial performance, the effect is not statistically significant. This underscores the need for manufacturing firms to adhere to International Financial Reporting Standards (IFRS) and enhance voluntary disclosures to improve transparency and investor confidence. Additionally, a study by Afuya et al. (2025) revealed that corporate disclosures, including risk, financial, corporate governance, and corporate social responsibility disclosures, have a significant effect on financial performance. These findings suggest that increasing the quality and quantity of disclosures can lead to improved financial performance, thereby potentially enhancing market returns

1.3 Objective of the study

The study sought to examine the effect of non-financial asset disclosures on market returns of manufacturing firms at NSE

1.4 Null hypothesis

There is no significant relationship between non-financial asset disclosures and market returns of manufacturing firms listed on the Nairobi Securities Exchange (NSE)

2. Literature Review

2.1 Theoretical Review

Institutional Theory, as proposed by Donaldson in 1982, suggests that firms must align with the societal norms, rules, and values of their institutional environment to operate successfully. In the context of non-financial assets, this theory explains why firms are motivated to disclose information that reflects their adherence to institutional pressures. By providing detailed reports on non-financial assets, such as social, environmental, and governance factors, firms demonstrate their compliance with broader societal expectations and regulatory frameworks. This, in turn, enhances the firm's reputation and aligns its operations with institutional norms, potentially improving market returns by building trust with stakeholders, such as investors, regulators, and the public.

In the context of non-financial asset disclosures, this theory suggests that firms disclose information about their environmental, social, and governance (ESG) practices to align with institutional pressures and enhance their legitimacy in the eyes of stakeholders.Recent studies have shown that such disclosures can improve stock price informativeness and reduce information asymmetry, thereby potentially enhancing market returns.For instance, a study by Reber et al. (2022) found that ESG disclosures reduce future firm-specific crash risk and

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idiosyncratic volatility, indicating a positive relationship between non-financial disclosures and market performance

However, critics of Institutional Theory argue that it focuses too narrowly on non-financial disclosures, overlooking the importance of financial indicators crucial for assessing a firm's performance, such as return on assets (ROA), return on equity (ROE), and profit margin. This limitation makes it challenging to fully evaluate market returns based solely on non-financial disclosures (Smith, J. 2022). Despite these criticisms, the theory remains relevant in this study, as it highlights how non-financial disclosures, driven by institutional pressures, can influence a firm's market returns. Firms that enhance their non-financial asset disclosures are likely to improve their transparency and investor confidence, which can positively affect their financial performance, thus making Institutional Theory an important lens for understanding how market returns are shaped by such disclosures.

2.2 Non-Financial asset disclosures and market returns

Non-financial asset disclosures, such as intangible assets, intellectual property, human capital, brand equity, and environmental impact, play a crucial role in evaluating a company's long-term value and sustainability. Unlike financial disclosures that focus on tangible metrics like revenue, profit, and cash flow, non-financial assets provide insights into factors that significantly influence a company's future performance and market positioning. Intellectual property, such as patents, trademarks, and copyrights, can enhance a firm's competitive advantage, while human capital and innovation—often not captured in traditional financial reports—can drive profitability. In today's business landscape, the rise of sustainability and social responsibility has made non-financial asset disclosures increasingly important for investors, regulators, and consumers. These stakeholders are more focused on how these assets contribute to a company's strategic goals and market performance, highlighting the need for standardized reporting frameworks like the Global Reporting Initiative (GRI) or Integrated Reporting Framework (Eccles &Krzus, 2018; Global Reporting Initiative, 2020).

Research has shown that non-financial asset disclosures can positively impact market returns. Transparent reporting of environmental sustainability or intellectual property portfolios, for instance, can lead to improved investor confidence and better financial performance. Shatman (2014) explored how non-financial disclosures influence investment returns in Norwegian assurance companies and found that improper implementation of investment decisions due to insufficient non-financial information affects future cash flow estimations. Similarly, Fang (2012) examined the effects of liquidity management and investment decisions on company growth in Nigeria, although it did not specifically address internal rate of return. Nyabwanga (2011) analyzed the impact of non-financial assets on investment decisions in Kenya's banking sector but found gaps in the financial asset requirements for improving financial performance. These studies underscore the need for more focused research on how non-financial asset disclosures directly influence market returns, with implications for financial performance and strategic decision-making in firms (Shatman, 2014; Fang, 2012; Nyabwanga, 2011).

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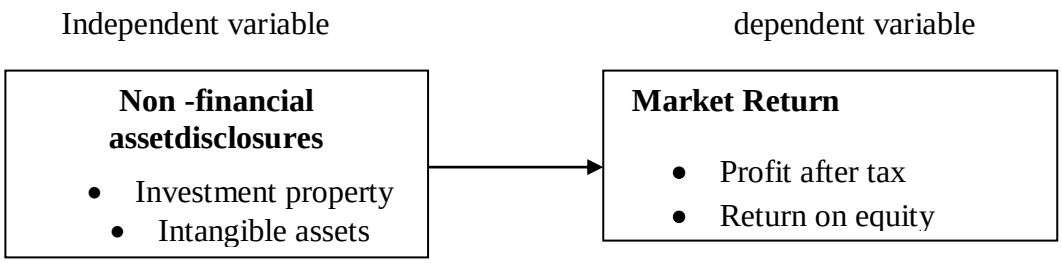

2.1 Conceptual framework showing indicators.

Descriptive research design was used. Further, the study used positivism paradigm to examine empirical study and theoretical aspect of literature through conceptual framework and testing research hypotheses. This research philosophy enabled to examine conceptual framework for measuring data underlying assumptions. The positivist perception is directly related with the notion of understanding objectivism under study (Wanjau 2019). This type of research philosophy gives scientist perspective of evaluating existing phenomena with various objectives through subjective views (Sekaran 2013). This can enable the researcher to derive natural characteristics of testing hypothesis using theoretical assumptions through measurement of a given realism. This philosophy is full of ideas explaining reality about data collection designed to determine accuracy. Mixed research approach focuse using cross-sectional, descriptive design. Kothari (2014) finds that descriptive design is used to describe phenomena as it is while it is appropriate in this study. The researcher described disclosures on market returns in listed manufacturing firms application of theories. The positivist perspective philosophy enables the study to predict and generalize findings on the previous observations and explain it into reality relationships. Thus, it enabled the researcher to predict and to establish the reality of the relationship between nonfinancial assets disclosures and market returns.

The study targeted 8 manufacturing firms allowed for a more thorough examination of particular characteristics, trends, or behaviors within those firms. The manufacturing firms was selected from the target population. Manufacturing firms are homogeneous (similar in characteristics) to better isolate specific variables or trends.

The total of 8 listed firms considered for 10 financial periods consistently in published reports.

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Table 3.1 Sample size

Firm listed	**Number**
BOC Kenya	1
British American tobacco	1
Carbacid investment plc	1
Eat African breweries	1
Mumias sugar limited	1
Unga group limited	1
Kenya Orchards	1
Frame tree group holdings limited	1
Total	**8**

Source: (NSE 2020)

4. Results and Discussions

4.1 Non-financial Asset Disclosures

The study sought to examine the effect of non-financial asset disclosures on market returns of listed manufacturing firms at NSE.

The study analyzed non-financial asset disclosures with the indicators of Investment in property, plant and machinery, Intangible assets and Government security/deferred tax assets as an aspect of non-financial assets on market returns. Table 4.1 presented the results.

Table 4.1 Non-financial asset disclosures

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Investment in property, plant and machinery	56	286.00	9086.00	2876.6481	2657.11501
Intangible assets	56	109.00	9071.00	3219.3333	2834.81322
Government security/deferred tax assets	56	189.00	66793.00	8099.3148	14159.06908
Valid N (listwise)	56				

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Property, plant and machinery had lowest mean 2876.648 with standard deviation of 2657.11501, followed by intangible assets with a mean of 3219.333 and standard deviation of 2834.81322 while Government security/deferred tax assets with a mean of 8099.3148and standard deviation of 14159.06908. From the results, it was noted that Government security/deferred tax assets had highest mean and Property, plant and machinery lowest mean.

The recognition of non-current assets using fair value such as Property, plant and machinery is by its carrying value, depreciation costs and related impairments. This is non-financial assets characterized by listed firms using fair value options for disclosure; this finds that large firms with high fair value of Property, plant and machinery are mostly to revalue longterm assets. They were expected to improve market returns and contribute to better revenue. Property, plant and machinery determined the value of the firms for better market returns. IAS 16 notes on recognition and determination carrying values improves growth of market value. Amel-Zadeh (2013) argued that the practice of recognizing non-current assets like PP&E using fair value options underpins transparency and accuracy in financial reporting for listed firms. This approach, guided by standards such as IAS 16, not only enhances market returns but also supports firm valuation and growth strategies through reliable asset valuation practices.

Intangible assets are determined by subtracting the firm book value from its market value or obtained from disposal assets or revenue from sale of product (IAS 38). It is disclosed in the balance sheet when acquired or purchased or they are non-cash flows from profit, dividends, sale of assets, interest income, income statements is disclosed as a revenue or expenditure but they cannot affect cash balances. The study of Biddle (2023) showed that the increase in an intangible asset by firms had influence on market returns. Lev and Sougiannis (2022) affirmed that the increase in intangible assets by firms not only enhances their market returns but also signifies their ability to leverage intellectual capital for sustained growth and profitability. Adherence to accounting standards like IAS 38 ensures that these assets are properly recognized as disclosed, thereby providing stakeholders with valuable insights into a firm's competitive position and future prospects.

Government security/deferred tax assets offered by treasury bills and treasury bonds disclosed in financial statements as proceeds unrealized. Government securities bonds cause individual investors to buy at lower risk because repayment amount is ordinary bonds. They provide steady incomes to investors and reduce investment risk to fluctuate market returns or enhance it and ability to generate money. Jones (2023) added that government securities, such as treasury bills and bonds, contribute significantly to financial market dynamics by offering stability, predictable income, and risk diversification. Their inclusion in firm portfolios can influence investor confidence, mitigate investment risk, and potentially enhance market returns through stable cash flows and prudent asset management practices.

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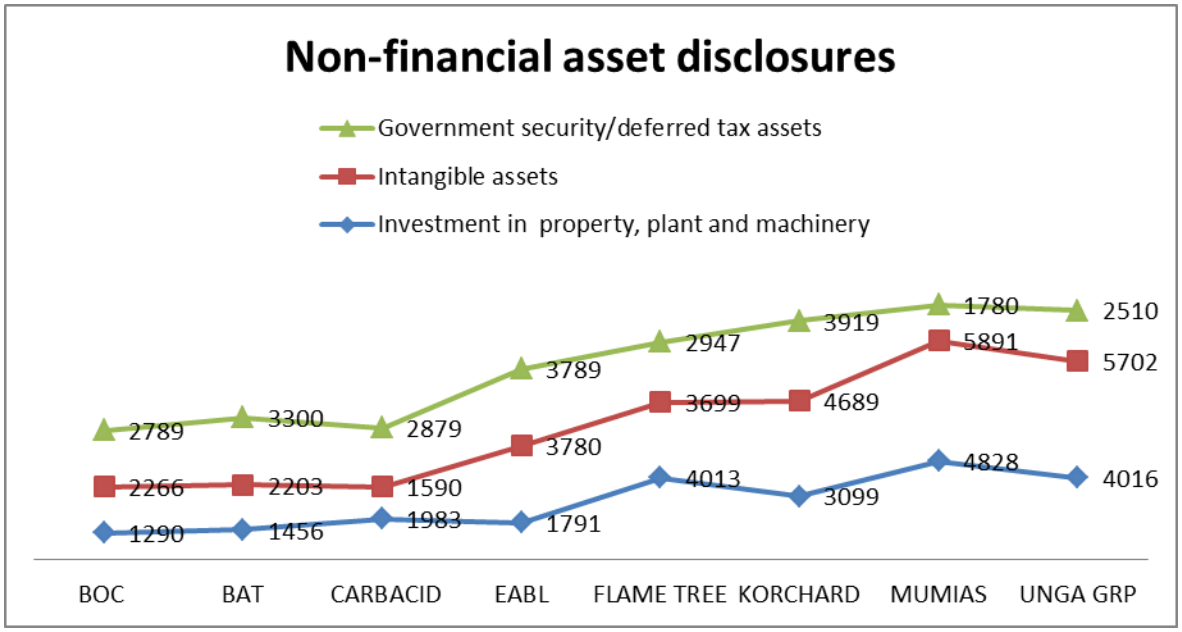

Figure 4.1 showing non-financial disclosures

Investment in property, plant and machinery was highest in Mumias with 4828, Unga group with 4016, 4013 in Flame tree, Kenya orchard with 3099, Carbacid with 1983, Eabl with 1791, Bat with 1456 and Boc with 1290 the lowest.

4.2 Non-financial assets and its effects on market returns

HO_1: There is no significant effect of non-financial assets disclosure on market returns of manufacturing firms at NSE

The study first analyzed simple regression to test the effect of the relationship between non-financial assets and market returns. Table 4.2 presented model summary

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.290[a]	.084	.067	307.11991

a. Predictors: (Constant), non-financial assets disclosure

The results showed that r= 0.290, these statistics indicate a weak positive correlation between non-financial assets disclosure and market returns, with non-financial assets disclosure explaining approximately 8.4% of the variance in market returns. The R square 0.084 implied that a change in non-financial assets resulted to a change in market returns by 8.4%. The Adjusted R Square corrects this for the number of predictors in the model, slightly lowering it to 6.7%. This indicates that other factors likely play a more significant role in determining market

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returns. Standard Error of the Estimate (307.11991) is relatively large value suggests substantial variability in market returns that is not explained by the model, reinforcing the limited explanatory power of non-financial assets disclosure. Clarkson et al (2020) found that while ESG disclosures are positively correlated with market returns, the explanatory power of these disclosures is limited. This is consistent with the current model's R Square value of 0.084, indicating a weak but positive relationship.

The table 4.3 ANOVA indicated that statistical output: Mean Square Regression: 450,684.020 with Residual: 94,322.639, **F-Statistic:** 4.778, **Significance Level (Sig.):** 0.033. The F-statistic of 4.778 and the significance level of 0.033 suggest that the model is statistically significant, indicating that non-financial assets disclosure has a meaningful, though modest, effect on market returns. The regression model demonstrates a significant but modest positive relationship between non-financial assets disclosure and market returns, with an F-statistic of 4.778 and a p-value of 0.033. This suggests that non-financial disclosures contribute to explaining market returns, though other factors are likely more influential. Recent literature from 2021 to 2024 such as Mio, Fasan and Russo (2024) supports these findings, highlighting the growing but limited impact of non-financial disclosures on market performance. This underscores the importance of non-financial disclosures in enhancing market returns, while also recognizing the need for further exploration into additional determinants of market performance. This is supported by recent studies done by Fatemi and Foo (2023) noted that significant moderate impacts of non-financial disclosures on market performance.

Table 4.3ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	450684.020	1	450684.020	4.778	.033[b]
	Residual	4904777.226	52	94322.639		
	Total	5355461.245	53			

a. Dependent Variable: Market Returns

b. Predictors: (Constant), non-financial assets disclosure

The model was fit to predict non-financial assets disclosure and market returns of listed firms. The significant F-statistic (4.778) in the current model aligns with their conclusion that non-financial disclosures can positively influence market returns. These statistics indicate a significant positive relationship between non-financial assets disclosure and market returns, though the effect size remains modest.

The sum of squares regression (450,684.020) and residual (4,904,777.226) showed that while non-financial assets disclosure explains some of the variability in market returns, the majority remains unexplained. The mean square values reinforce this, with the residual mean square (94,322.639) indicating considerable unexplained variance.

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Regression coefficients were established to determine a change in relationship between non-financial assets and market returns. The null hypothesis (H0) typically posits that there is no relationship between the predictor (non-financial assets disclosure) and the dependent variable (market returns).

The regression model shows a significant positive relationship between non-financial assets disclosure and market returns, with a t-statistic of 2.174 and a p-value of 0.033. The null hypothesis, stating that non-financial assets disclosure has no effect on market returns, is rejected. This conclusion is supported by recent literature from 2021 to 2024, which consistently finds significant positive impacts of non-financial disclosures on market performance through similar hypothesis testing methodologies.

Table 4.4 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	638.162	60.487		10.550	.000
	non-financial assets disclosure	.200	.092	.292	2.174	.033

a. Dependent Variable: market returns

Further, in this model, the p-value of 0.033 is less than 0.05, leading us to reject the null hypothesis. This indicates that non-financial assets disclosure has a statistically significant effect on market returns. This study was supported by Mio et al (2024) whose results indicated a significant impact of integrated reporting on firm value, leading to the rejection of the null hypothesis.

The results indicated by (B=.200, t 2.174, p<0.05) a change in non-financial assets can vary market return by 20.0% and statistically significant effect, hence null hypothesis was rejected.
Functional relationships (f) would be analyzed with empirical model as shown;

$y_{it} = \boldsymbol{\alpha} + \boldsymbol{\beta} X_{1it} + \mathbf{0.200}_{it} i$ =1,..N ;t= $1, \ldots . T]$.....(1)

idenotes dimension of cross-sectional data in non-Financial assets and t represents dimension of time, y dependent variable, X- Independent variable, a- y-intercept, u=error term,

Conclusion and Recommendation

The findings from the regression analysis demonstrate that non-financial asset disclosures have a statistically significant, albeit modest, positive effect on market returns of manufacturing firms listed at the Nairobi Securities Exchange (NSE). With an R Square value of 0.084, the study indicates that non-financial asset disclosures account for approximately 8.4% of the variance in market returns. The F-statistic of 4.778 and p-value of 0.033 affirm the significance of the regression model, supporting the rejection of the null hypothesis. Although the effect size is

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relatively small, the results align with recent studies such as Mio, Fasan, and Russo (2024) and Fatemi and Foo (2023), which emphasize the growing importance of non-financial disclosures in influencing firm value and market performance. The regression coefficient (B = .200) implies that a unit increase in non-financial asset disclosure leads to a 20% increase in market returns, thus underlining the value of transparent, integrated reporting in driving shareholder value.

In light of these findings, it is recommended that manufacturing firms at the NSE prioritize the inclusion of non-financial asset information in their financial reports. This includes disclosing key elements such as intellectual property, human capital, environmental performance, and social impact initiatives. To enhance the credibility and utility of these disclosures, firms should adopt internationally recognized frameworks such as the Global Reporting Initiative (GRI) or the Integrated Reporting Framework. Additionally, regulatory bodies such as the Capital Markets Authority (CMA) in Kenya should provide guidelines and incentives for comprehensive non-financial reporting. These measures can help improve investor confidence, attract long-term investment, and potentially increase market valuation. Furthermore, future research should explore other determinants that significantly influence market returns, as the current model indicates that a large portion of variability remains unexplained by non-financial assets alone.

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