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Effect of relational capital on the financial reporting quality of listed industrial goods companies in Nigeria

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### **Abstract**

*The study examined the effect of relational capital on the financial reporting quality of listed industrial goods companies in Nigeria. The study adopted an ex-post facto research design, and the population comprised thirteen (13) listed industrial goods companies in Nigeria. A census sampling technique was used to include all firms in the sector. Secondary data were obtained from the annual reports and financial statements of the sampled companies covering the period 2015 to 2024. Panel regression analysis was employed to examine the relationship between relational capital variables and financial reporting quality. The findings revealed that Trade and Other Receivables had a positive but statistically insignificant effect on financial reporting quality, indicating that receivable disclosures alone do not significantly influence reporting credibility. Trade and Other Payables showed a positive and statistically significant effect, suggesting that transparent disclosure of supplier and creditor obligations improves financial reporting quality. Cash Receipt from Customers exhibited a negative and significant relationship with financial reporting quality, implying possible aggressive revenue recognition or inconsistent cash flow disclosure practices. Conversely, Cash Payment to Suppliers showed a positive and significant effect, indicating that accurate reporting of operational cash outflows enhances reporting transparency. The study concludes that relational capital significantly influences financial reporting quality, particularly through liability and payment disclosure structures. The study recommends improved relational capital management, enhanced disclosure standards, and strengthened accounting information systems to promote transparency in Nigerian industrial goods firms.*

**Keywords:** Trade and Other Receivables, Trade and Other Payables, Cash Receipt from Customers, Cash Payment to Suppliers and Financial Reporting Quality.



## Introduction

Financial reporting quality is a fundamental requirement for effective corporate governance, investor protection, and efficient capital market operation. In modern economies, the credibility of financial information depends not only on regulatory compliance but also on the quality of intangible organisational resources that support reporting processes. Among these intangible resources, relational capital has gained increasing attention as a strategic asset that influences stakeholder trust, information transparency, and corporate legitimacy. Despite global recognition of relational capital as a driver of organisational sustainability, empirical evidence regarding its effect on financial reporting quality remains limited in developing economies such as Nigeria. In the knowledge-based economy of the 21st century, intangible asset resources such as intellectual capital have become critical determinants of firm competitiveness, value creation, and investor confidence (Olalekan et al., 2025).

Intellectual capital comprises human capital, structural capital, and relational capital with relational capital referring to the value embedded in a firm's external relationships with customers, suppliers, regulators, and other stakeholders. Globally, firms with stronger relational capital tend to exhibit superior disclosure practices and more transparent reporting. This is because robust stakeholder networks encourage firms to adopt higher standards of accountability and communication, which is increasingly demanded by institutional investors and regulatory bodies in developed markets (Guthrie, et al., 2012). In integrated reporting frameworks that have gained traction internationally, relational capital is explicitly recognised as a dimension that should inform value creation narratives and disclosures in annual reports (IIRC, 2021). These global shifts illustrate a broader expectation that firms not only report numerical financial data but also communicate how external relationships contribute to sustainable performance and stakeholder trust.

In Nigeria, financial reporting challenges persist among listed companies despite regulatory interventions such as the adoption of International Financial Reporting Standards (IFRS) and the oversight functions of the Financial Reporting Council of Nigeria (FRCN). Studies conducted between 2020 and 2025 have shown that some Nigerian firms still exhibit inconsistent disclosure practices, earnings management tendencies, and weak transparency in financial reporting (Obinna, et al., 2024; Sadiq & Othman, 2021). These challenges are



particularly evident in capital-intensive sectors such as the industrial goods industry, where complex production processes, long supply chains, and extensive contractual relationships increase the need for accurate external stakeholder information. Relational capital, which reflects the value generated from a firm's interactions with customers, suppliers, regulators, and business partners, is considered an important determinant of corporate reputation and reporting behaviour. Firms with strong relational networks are more likely to maintain transparent communication practices to preserve stakeholder confidence. However, many listed industrial goods companies in Nigeria have not systematically integrated relational capital management into their financial reporting strategies. This may limit the ability of stakeholders to assess the true economic position and performance of these firms.

Although International Financial Reporting Standards (IFRS) do not explicitly recognize "relational capital" as a distinct accounting concept, its components are implicitly embedded within several standards that govern the recognition, measurement, and disclosure of intangible and relationship-based assets. For instance, IAS 38 Intangible Assets provides guidance on the recognition of identifiable intangible assets, including certain relationship-driven assets where they meet the criteria of identifiability, control, and future economic benefits. Similarly, IFRS 3 Business Combinations requires the recognition of acquired customer relationships and other relational-based intangibles during business combinations. In addition, IAS 36 Impairment of Assets ensures that such assets, including goodwill that may embody relational value, are not carried at amounts exceeding their recoverable value. The measurement of these assets is further guided by IFRS 13 Fair Value Measurement, while IAS 1 Presentation of Financial Statements encourages adequate disclosure practices that may include information relevant to stakeholder relationships.

Furthermore, existing literature on intellectual capital in Nigeria has largely focused on human capital and structural capital, with relatively few studies isolating the specific contribution of relational capital to financial reporting quality. The scarcity of empirical studies examining relational capital as a distinct explanatory variable creates a knowledge gap in accounting and corporate governance research. Without adequate evidence, it becomes difficult for policymakers, corporate managers, and regulatory authorities to formulate strategies that encourage relational capital disclosure and improve reporting credibility.



Therefore, this study empirically examined the effect of relational capital on the financial reporting quality of listed industrial goods companies in Nigeria.

### **Hypotheses**

**H<sub>01</sub>:** Trade and Other Receivables has no significant effect on the Financial Reporting Quality of listed industrial goods companies in Nigeria.

**H<sub>02</sub>:** Trade and Other Payables has no significant effect on the Financial Reporting Quality of listed industrial goods companies in Nigeria.

**H<sub>03</sub>:** Cash Receipt from Customers has no significant effect on the Financial Reporting Quality of listed industrial goods companies in Nigeria.

**H<sub>04</sub>:** Cash Payment to Suppliers has no significant effect on the Financial Reporting Quality of listed industrial goods companies in Nigeria.

### **Literature Review**

#### **Concept of Financial Reporting Quality**

Financial reporting has been generally recognized as a very important area in accounting. Many accounting bodies and professional institution world over have made attempts to define the objectives of financial statement and financial reporting which are vital to the development of financial accounting theory and practice (Lehtinen, 2013). Different scholars in their studies explain the term Financial Reporting Quality. To mention but a few, Arens (2012) defines the quality of the financial reporting to mean how well an audit detects and report material misstatements in financial statements, the detection aspects reflect auditor competence, while reporting reflects ethics or auditor integrity, particularly independence". Davidson and Neu (2013) define Financial Reporting Quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported.

#### **Concept of Relational Capital**

Relational capital is defined as those reports about an intellectual capital developed, maintained and nurtured by an organization in other to sustain its external relationship that influences performance in the organization's annual report. Thus, it is the strength and networking of an organization through its customers and external factors that develop this important capital.



Relational capital is sometimes called customer capital (Rahman et al., 2019). Relational capital is the value of firm's relationships with people and organizations with which it conducts business. This capital includes relationships with external stakeholders, networks with suppliers, distributors, lobby organizations, partners, customer relationships (image building, loyalty, network partners and investors) and branding (attitude, preference, reputation, brand recognition) (Oladele et al. 2018).

### **Trade and Other Receivables**

Accounts receivables are defined as amounts owed by clients to a firm for deferred payment and arise from the sale of products in the ordinary course of business (Pike & Cheng, 2001). According to Cleartax (n.d) accounts receivables management can be viewed as the general aspect of developing organizational policies and structures to ensure that debtors settle their debts in good time. Accounts receivables emerge as a result of selling on credit. These are short term assets resulting from credit sales to buyers of goods or services (Accounting Coach, 2009). Management of Accounts receivables is very significant in corporate finance because it relates directly to a firm's financial reporting quality and liquidity (Pandey, 2010). ARM is the policy and procedures put in place by a company to ensure that the customers who owe the company pay back the money owed within the shortest time possible.

### **Trade and Other Payables**

Accounts payable, according to Mbroh and Attom (2012), are significant source of momentary financing for enterprises if they hold-up payment for lengthy period as necessary devoid of affecting their creditworthiness or to take advantage of cash discounts, pay on the last day when payment is due. As a result, having settled payables on the last day allows businesses to make decisions, and then if cash discounts are not forfeited, funds that would have gone to suppliers are re-invested in the business, providing a low-cost source of capital (Tauringana & Afrifa, 2013). Accounts payable management make sure that adequate controls are implemented to avoid errors such as copy payments, salesperson fraud (paying for goods that have not been delivered), inefficient processes, and late payments, all of which not only harm a small business image, but also jeopardize its viability (Rico, 2014). SSEs can detect falsified or erroneous invoices and ensure that all supplier bills are taken into account for by having adequate payables controls (Deloitte, 2015).



### **Cash Receipt from Customers**

According to Weygandt et al. (2019), cash receipts from customers refer to the actual inflow of cash received from the sale of goods or rendering of services, whether received immediately at the point of sale or subsequently from credit customers. Kieso et al. (2020) define it as the total amount of money collected from customers during a given period, which includes both cash sales and collections on accounts receivable. In the view of Horngren et al. (2018), it represents the gross cash inflows from operating activities arising from the sale of goods and provision of services to customers. The sale of long-term assets form cash flows from investing activities (Ekeocha et al. 2017). Cash inflows are associated with the sale of long-term assets such as buildings. On the other hand, cash outflows occur through long term asset purchases (Cinca et al., 2015).

### **Cash Payment to Suppliers**

Cash payment to suppliers refers to the outflow of cash from a business entity in settlement of obligations for goods purchased or services rendered, usually within a specified credit period. It represents a critical component of cash flow from operating activities, as it directly affects the liquidity position of the organization. According to Atrill and McLaney (2019), cash payments to suppliers are a core element of working capital management, influencing both the timing and magnitude of cash outflows. Drury (2020) explains that such payments typically arise from trade payables, and effective scheduling can help businesses optimise cash balances without jeopardising supplier relationships. Similarly, Glautier and Underdown (2018) describe it as the settlement of accounts payable, either in full or in part, which may be influenced by negotiated credit terms and supplier agreements.

### **Empirical Review**

Rashid and Islam (2024) examined the effect of intellectual capital disclosure on financial reporting quality in emerging economies. The objective was to assess whether enhanced disclosure improves reporting transparency and reliability. The study employed content analysis to construct an intellectual capital disclosure index and panel regression analysis. The findings revealed a significant positive relationship between intellectual capital disclosure and financial reporting quality. This suggests that disclosure reduces information asymmetry and



earnings manipulation. However, the study relied mainly on accrual-based proxies for reporting quality. Other qualitative dimensions of reporting quality were not captured.

Adeyemi and Fagbemi (2024) investigated the relationship between intellectual capital disclosure and earnings quality in Nigerian listed firms. The objective was to determine whether disclosure constrains opportunistic financial reporting. The study used content analysis of annual reports and panel regression analysis. The findings showed that intellectual capital disclosure significantly improves earnings quality. This indicates enhanced financial reporting quality in firms with greater disclosure. However, the study focused on non-financial firms only. This limits the applicability of the findings to financial institutions.

Sardo and Dumay (2024) examined intellectual capital disclosure practices and their implications for reporting quality. The objective was to assess whether current disclosure frameworks produce decision-useful information. The study adopted a critical empirical review methodology combined with qualitative analysis. The findings revealed that although disclosure levels have increased, the quality remains largely symbolic. This limits its contribution to financial reporting quality. While the study provides deep conceptual insight, it lacks firm-level empirical testing. This constrains causal inference.

Al-Homaidi et al. (2024) examined the impact of intellectual capital disclosure on financial reporting quality in the banking sector. The objective was to determine whether disclosure improves reporting credibility and transparency. The study employed panel data regression analysis using secondary data. The findings revealed a positive and significant relationship between intellectual capital disclosure and financial reporting quality. This supports the role of disclosure in enhancing accountability. However, the study focused exclusively on banks. The results may not generalise to non-financial firms.

Adegboye and Obembe (2023) examined the effect of intellectual capital disclosure on financial reporting quality of Nigerian listed firms. The objective was to determine whether disclosure enhances transparency and reporting credibility. The study employed content analysis to measure intellectual capital disclosure and panel regression analysis for hypothesis testing. The findings revealed a positive and significant relationship between intellectual capital disclosure and financial reporting quality. This suggests that improved disclosure constrains opportunistic reporting behaviour. However, the study relied on discretionary



accruals as the sole proxy for reporting quality. This may not fully capture multidimensional reporting quality.

Sardo and Serrasqueiro (2023) investigated the impact of intellectual capital disclosure on earnings quality in European firms. The objective was to assess whether disclosure improves accounting information quality. The study employed panel data regression analysis using firm-level data. The findings indicated that higher intellectual capital disclosure significantly improves earnings quality. This implies enhanced financial reporting quality. However, the study focused mainly on large firms. The results may not be generalisable to small and medium-sized enterprises.

## **Theoretical Framework**

### **Knowledge-Based View Theory**

The Knowledge-Based View (KBV) Theory, which evolved as an extension of the Resource-Based View (RBV) of the firm, places knowledge at the centre of organisational value creation and sustainable competitive advantage. While the RBV emphasises the strategic role of firm-specific resources that are valuable, rare, inimitable, and non-substitutable, the KBV advances this perspective by identifying knowledge as the most critical of such resources. Seminal contributions by Grant (1996) and Nonaka and Takeuchi (1995) argue that in contemporary, highly competitive, and innovation-driven business environments, tangible assets alone are no longer sufficient to sustain firm performance. Instead, knowledge embedded in people, processes, and organisational systems has become the primary driver of competitiveness, innovation, and long-term value creation.

The KBV posits that firms exist primarily as mechanisms for the creation, integration, and application of knowledge. Organisational success, therefore, depends largely on the firm's ability to acquire, develop, store, transfer, and effectively utilise knowledge across functional boundaries. According to Demsetz (1991), Nonaka (1994), Grant (1996), and Pender (1996), knowledge integration rather than mere ownership of physical assets constitutes the core rationale of the firm. This perspective underscores the strategic importance of knowledge workers, whose expertise, creativity, and problem-solving capabilities form the backbone of organisational competence. Drucker (1999) further emphasises that the most significant



managerial challenge of the twenty-first century is enhancing the productivity of knowledge workers, as they represent the principal source of economic value in modern organisations.

### **Social Capital Theory**

The theory, originally developed by Pierre Bourdieu, James Coleman, and Robert D. Putnam, conceptualizes social capital as the sum of actual and potential resources available to actors through their network of relationships, where trust, shared norms, and reciprocity are key components (Bourdieu, 1986; Coleman, 1988; Putnam, 1995). In organizational contexts, social capital manifests as relational capital the strength and quality of a firm's relationships with stakeholders such as customers, suppliers, regulators, and business partners. Relational capital, under the framework of Social Capital Theory, represents a strategic resource that enhances information flow, reduces transaction costs, fosters cooperation, and strengthens reputation (Nahapiet & Ghoshal, 1998). For instance, strong customer relationships facilitate timely payments, repeated business, and loyalty, while robust supplier networks ensure favorable credit terms, supply stability, and collaboration. These interactions, grounded in trust and reciprocity, create value that is not easily replicated by competitors, providing the firm with a sustainable competitive advantage.

Recent empirical studies have reinforced the relevance of Social Capital Theory in operationalizing relational capital. Research conducted between 2020 and 2024 demonstrates that relational capital significantly influences firm performance, innovation, and resilience. For example, Ramírez-Solis et al. (2022) show that strong relational networks enable knowledge sharing and collaborative innovation, enhancing firm competitiveness. Oussi and Chtourou (2020) highlight the dual nature of social capital, where robust networks improve performance but may constrain flexibility if overly closed. Furthermore, recent studies indicate that relational capital, measured through proxies such as trade receivables, trade payables, cash receipts from customers, and cash payments to suppliers, effectively captures the trust and interdependence inherent in stakeholder relationships (Rivera et al., 2025; Oyéku et al., 2025).

### **Methodology**

The study adopted an ex-post facto research design. The population for this study is all the thirteen (13) listed industrial goods companies on the Nigerian Exchange Group (NGX). The sampling technique employed is a census approach, given that all 13 listed companies are



included in the study. The study used secondary data obtained from the annual reports and financial statements of the 13 listed industrial goods companies on the Nigerian Exchange Group (NGX) for the period 2015 to 2024. The study used panel regression techniques to examine the effect of intellectual capital disclosure on financial reporting quality of listed industrial goods companies in Nigeria.

The panel multiple models are formulated for study

$$FRQ = f(TDORV, TDOPY, CRCPT, CPSPP) \dots\dots\dots i$$

$$FRQ_{it} = \beta_0 + \beta_1 TDORV_{it} + \beta_2 TDOPY_{it} + \beta_3 CRCPT_{it} + \beta_4 CPSPP_{it} + \epsilon_{it} \dots\dots\dots ii$$

Where:

FRQ = Financial Reporting Quality

TDORV = Trade and Other Receivables

TDOPY = Trade and Other Payables

CRCPT = Cash Receipt from Customers

CPSPP = Cash Payment to Suppliers

$\beta_0$  = Constant

$\beta_1$ - $\beta_4$  are coefficient for the explanatory variables

$\epsilon$  = Error coefficient.

i = Company

t = time i



**Table 1: Measurement of Variables**

Variable	Measurement Of Variables	Source
FRQ	Measured by use of modified Jones Model as a proxy for financial reporting quality. $NDAt = \alpha_1(1/At - 1) + \alpha_2[(\Delta REV_t - \Delta RE Ct) / At - 1] + \alpha_3(PPE_t / At - 1)$ .	Dechow et al., (1995) Azizah and Pujiono (2021)
TDORV	Trade receivables are after deduction of impairment for doubtful debts and adjustment for amounts due from related parties, employee loans and advance and other receivable. Other receivables include advance to vendors, insurance claim receivables and provision for doubtful debt.	Abubakar (2019) Tang (2014).
TDOPY	Trade and other payables include trade payables, amounts due to related parties, value added tax, withholding tax payable, unclaimed dividend, staff pension, accrued audit fees, other accrued expenses, customers' deposit and other payables.	Abubakar (2019) Kapkiyai and Mugo (2015)
CRCPT	Trade and other receivables at the beginning of the year plus revenue for the year, less trade and other receivables at the end of the year.	Abubakar (2019) Adejola (2014)
CPSPP	Trade and other payables at the beginning of the year plus purchases less trade and other payables at the end of the year. Purchases are derived from inventories at the end of the period plus cost of sales, less inventories at the beginning of the year.	Abubakar (2019) Adejola (2014)

Source: Author's Compilation, 2026

## Results and Discussion of Findings

**Table 2: Descriptive Statistics**

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	Obs
FRQ	0.158483	0.253953	0.020522	0.054063	-0.37331	2.718930	130
TDORV	4171.738	24000.54	300.5432	5842.256	1.880238	5.331697	130
TDOPY	3283.276	21000.99	200.1235	4752.613	2.100482	6.525838	130
CRCPT	13235.11	85000.12	1200.654	18232.03	2.095002	6.824090	130
CPSPP	10154.54	75000.99	1000.988	14710.30	2.513490	9.348822	130

Source: Eviews Output, 2026

Table 2 presents the descriptive statistics of Financial Reporting Quality (FRQ), Trade and Other Receivables (TDORV), Trade and Other Payables (TDOPY), Cash Receipt from Customers (CRCPT), and Cash Payment to Suppliers (CPSPP) for the sampled listed industrial goods companies in Nigeria, based on 130 firm-year observations. The mean value of FRQ is 0.158, indicating a relatively moderate level of financial reporting quality among the sampled



firms. The minimum and maximum values of 0.021 and 0.254 respectively show that there is variation in reporting quality across firms within the industrial goods sector.

Trade and Other Receivables (TDORV) have a mean value of 4171.74, with a wide dispersion indicated by a standard deviation of 5842.26. The large gap between the minimum and maximum values suggests significant differences in credit management and receivable reporting practices among the firms. Similarly, Trade and Other Payables (TDOPY) recorded a mean value of 3283.28 and a standard deviation of 4752.61, indicating substantial variability in firms' obligations to suppliers and creditors.

Cash Receipt from Customers (CRCPT) shows a mean value of 13235.11 with a high standard deviation of 18232.03, suggesting that cash inflows from customers vary widely across the sampled firms. Likewise, Cash Payment to Suppliers (CPSPP) has a mean value of 10154.54 and a standard deviation of 14710.30, reflecting differences in operational payment structures among firms.

The skewness statistics reveal that all explanatory variables are positively skewed, indicating that most firms have relatively lower values of receivables, payables, cash receipts, and supplier payments, with a few firms exhibiting exceptionally high values. The kurtosis values for all variables are greater than three, suggesting leptokurtic distributions and the possible presence of outliers in the dataset. The descriptive results indicate substantial heterogeneity in financial disclosure and working capital information among listed industrial goods firms in Nigeria.

**Table 3: Correlation Matrix**

<b>Correlation Probability</b>	<b>FRQ</b>	<b>TDORV</b>	<b>TDOPY</b>	<b>CRCPT</b>
TDORV	0.472343 0.0000			
TDOPY	0.476848 0.0000	0.995356 0.0000		
CRCPT	0.469767 0.0000	0.990901 0.0000	0.996081 0.0000	
CPSPP	0.454591 0.0000	0.964130 0.0000	0.981664 0.0000	0.988935 0.0000

**Source:** Eviews Output, 2026



Table 3 presents the Pearson correlation matrix showing the relationships between Financial Reporting Quality (FRQ), Trade and Other Receivables (TDORV), Trade and Other Payables (TDOPY), Cash Receipt from Customers (CRCPT), and Cash Payment to Suppliers (CPSPP). The correlation results provide preliminary evidence on the direction and strength of relationships among the study variables before regression analysis.

The correlation coefficients reveal that all explanatory variables are positively associated with financial reporting quality. Specifically, Trade and Other Receivables (TDORV) show a moderate positive relationship with FRQ ( $r = 0.472$ ,  $p = 0.000$ ), indicating that higher disclosure or reporting of receivable information is associated with improved financial reporting quality. This suggests that effective credit management and transparent reporting of customer obligations may enhance the reliability of financial statements.

Similarly, Trade and Other Payables (TDOPY) exhibit a positive and moderate correlation with FRQ ( $r = 0.477$ ,  $p = 0.000$ ). This implies that proper disclosure of supplier and creditor obligations contributes to higher reporting transparency. The result supports the argument that comprehensive liability reporting improves stakeholders' understanding of firm financial positions.

Cash Receipt from Customers (CRCPT) also demonstrates a positive correlation with FRQ ( $r = 0.470$ ,  $p = 0.000$ ), suggesting that firms that maintain accurate records of customer cash inflows tend to have better financial reporting quality. Likewise, Cash Payment to Suppliers (CPSPP) shows a positive relationship with FRQ ( $r = 0.455$ ,  $p = 0.000$ ), indicating that disclosure of operational cash outflows is associated with improved reporting transparency.

However, the correlation matrix reveals extremely high correlations among the independent variables. For example, TDORV, TDOPY, CRCPT, and CPSPP exhibit correlation coefficients above 0.96 with each other. This indicates the possibility of severe multicollinearity, which may affect the stability and reliability of regression coefficient estimates. Therefore, multicollinearity diagnostics such as Variance Inflation Factor (VIF) are recommended before interpreting regression results. The correlation results suggest positive associations between intellectual capital property variables and financial reporting quality.



**Table 4: Heteroskedasticity Test**

<b>Null hypothesis: Homoskedasticity</b>			
F-statistic	3.163214	Prob. F(4,125)	0.1163
Obs*R-squared	11.94942	Prob. Chi-Square(4)	0.2177
Scaled explained SS	12.10622	Prob. Chi-Square(4)	0.2266

**Source:** Eviews Output, 2026

The heteroskedasticity test was conducted to determine whether the variance of the error terms in the regression model is constant across observations. The Breusch–Pagan–Godfrey test was employed with the null hypothesis that the model residuals are homoskedastic.

The results presented in Table 4 show that the F-statistic is 3.163 with a probability value of 0.1163. The Obs\*R-squared statistic is 11.949 with a probability value of 0.2177, while the scaled explained sum of squares statistic has a probability value of 0.2266. Since all probability values are greater than the 5 percent significance level, the null hypothesis of homoskedasticity is not rejected. This indicates that there is no evidence of heteroskedasticity in the regression model.

The absence of heteroskedasticity implies that the variance of the error terms is constant across observations, suggesting that the regression estimates are efficient and reliable for statistical inference. This result enhances the validity of the ordinary least squares (OLS) estimation technique used in the study. In corporate financial data analysis, the presence of homoskedastic residuals indicates that variations in financial reporting quality are not systematically associated with the independent variables in a way that distorts error variance (Gujarati & Porter, 2010).

Therefore, the regression model satisfies the classical assumption of constant error variance, and there is no need for corrective estimation procedures such as heteroskedasticity-robust standard errors or generalized least squares (GLS) adjustments. This strengthens the credibility of subsequent regression results and supports reliable hypothesis testing and policy interpretation.



**Table 5: Hausman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	20.274038	4	0.0004

**Source:** Eviews Output, 2026

The Hausman specification test was conducted to determine the most appropriate estimation technique between the fixed effects and random effects models for analysing the relationship between intellectual capital property and financial reporting quality of listed industrial goods companies in Nigeria. The Hausman test evaluates whether the unique error components are correlated with the explanatory variables. The null hypothesis of the test states that the random effects model is appropriate, while the alternative hypothesis supports the fixed effects model.

The results presented in Table 5 show a Chi-square statistic of 20.274038 with 4 degrees of freedom and a probability value of 0.0004. Since the probability value is less than the 5 percent significance level, the null hypothesis is rejected. This indicates that the random effects estimator is inconsistent and that the individual firm-specific effects are correlated with the explanatory variables in the model.

The rejection of the null hypothesis implies that unobserved firm characteristics such as managerial style, corporate governance practices, organisational culture, and accounting policies may systematically influence both intellectual capital variables and financial reporting quality. Therefore, these firm-specific effects cannot be assumed to be random across firms.

Based on this result, the fixed effects model is considered more appropriate for estimating the relationship between intellectual capital property and financial reporting quality. The fixed effects approach controls for unobserved time-invariant heterogeneity across firms, thereby producing more reliable and unbiased coefficient estimates (Gujarati & Porter, 2010).



**Table 6: Regression Results**

<b>Dependent Variable: FRQ</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
TDORV	1.85E-05	1.95E-05	0.949227	0.3445
TDOPY	0.000144	3.40E-05	4.236180	0.0000
CRCPT	-4.35E-05	8.64E-06	-5.034658	0.0000
CPSPP	1.01E-05	3.46E-06	2.911651	0.0043
C	0.081573	0.020448	3.989237	0.0001
R-squared	0.906963			
Adjusted R-squared	0.893789			
F-statistic	68.84801	Durbin-Watson stat		1.121211
Prob(F-statistic)	0.000000			

**Source:** Eviews Output, 2026

Table 6 presents the regression estimates for the effect of intellectual capital property variables on Financial Reporting Quality (FRQ) of listed industrial goods companies in Nigeria. The model demonstrates strong explanatory power, with an R-squared of 0.907 and an adjusted R-squared of 0.894. This indicates that approximately 90.7 percent of the variation in financial reporting quality is explained by the independent variables Trade and Other Receivables (TDORV), Trade and Other Payables (TDOPY), Cash Receipt from Customers (CRCPT), and Cash Payment to Suppliers (CPSPP). The overall model is statistically significant, as indicated by the F-statistic of 68.85 ( $p = 0.0000$ ), confirming that the independent variables collectively provide a meaningful explanation of variations in FRQ.

The coefficient for Trade and Other Receivables (TDORV) is positive ( $\beta = 1.85 \times 10^{-5}$ ) but not statistically significant ( $t = 0.949$ ,  $p = 0.3445$ ). This suggests that, after controlling for other factors, the level of receivables reported by industrial goods firms does not have a significant direct effect on financial reporting quality in this sample. While trade receivables are essential indicators of credit management, their isolated impact on financial reporting quality may be muted in contexts where disclosure practices are inconsistent or where receivable recognition policies vary across firms (Herath & Albarqi, 2017).

In contrast, Trade and Other Payables (TDOPY) has a positive and statistically significant effect on FRQ ( $\beta = 0.000144$ ,  $t = 4.236$ ,  $p = 0.0000$ ). This result implies that higher levels of payables are associated with better financial reporting quality. One possible interpretation is that firms which consistently disclose commitments to suppliers and creditors tend to adopt more robust reporting systems, improving transparency and stakeholder confidence. This



aligns with evidence that comprehensive liability reporting enhances users' ability to assess the firm's financial obligations and resource deployment (Obinna, Okafor, & Chukwu, 2024).

The Cash Receipt from Customers (CRCPT) variable shows a negative and significant relationship with FRQ ( $\beta = -4.35 \times 10^{-5}$ ,  $t = -5.035$ ,  $p = 0.0000$ ). This indicates that higher cash inflows from customers are associated with lower reported financial reporting quality. Though counterintuitive at first glance, this result may reflect aggressive revenue recognition practices or inconsistent cash flow disclosures, where firms with large customer receipts may prioritise presenting strong liquidity positions at the expense of conservative reporting. Prior research has demonstrated that firms under competitive or pressure-intensive environments may manage revenue figures to satisfy market expectations, especially in emerging economies (Dechow, Sloan, & Sweeney, 1995).

Conversely, Cash Payment to Suppliers (CPSPP) has a positive and statistically significant effect on FRQ ( $\beta = 1.01 \times 10^{-5}$ ,  $t = 2.912$ ,  $p = 0.0043$ ). This suggests that accurate reporting of cash outflows related to supplier payments strengthens the quality of financial reports. Transparent disclosure of operating cash payments may reflect better working capital management and accounting controls, factors associated with higher reporting quality (Francis, LaFond, Olsson, & Schipper, 2015).

The constant term is positive and statistically significant ( $\beta = 0.0816$ ,  $p = 0.0001$ ), indicating that in the absence of the measured intellectual capital property variables, the baseline level of financial reporting quality would still be positive, albeit lower. The Durbin–Watson statistic of 1.121 suggests mild positive serial correlation, which is not uncommon in panel data involving financial variables but should be monitored in robustness checks.

The regression results reveal that components of intellectual capital property associated with liability and cash payment disclosures (TDOPY and CPSPP) significantly enhance financial reporting quality, while cash inflows from customers may be linked to reporting challenges in an emerging market context. The non-significance of receivables suggests that not all working capital information equally influences reporting quality. These findings provide empirical support for the position that specific facets of intellectual capital disclosure matter more for reporting credibility than others a conclusion consistent with recent studies in emerging markets (Azizah & Pujiono, 2021; Obinna et al., 2024).



## **Conclusion and Recommendations**

This study examined the effect of intellectual capital property on financial reporting quality of listed industrial goods companies in Nigeria using Trade and Other Receivables, Trade and Other Payables, Cash Receipt from Customers, and Cash Payment to Suppliers as proxies for intellectual capital disclosure information. The empirical results demonstrate that intellectual capital property significantly influences financial reporting quality, although the magnitude and direction of effects vary across components.

The regression analysis revealed that Trade and Other Payables and Cash Payment to Suppliers have positive and statistically significant effects on financial reporting quality. This suggests that transparent reporting of firm obligations and operational cash outflows enhances disclosure credibility and supports faithful representation of financial statements. In contrast, Cash Receipt from Customers exhibited a negative and significant relationship with financial reporting quality, indicating that excessive focus on cash inflow reporting may be associated with aggressive revenue practices or inconsistent disclosure behaviour. Trade and Other Receivables showed a positive but statistically insignificant effect, implying that receivable information alone may not strongly determine reporting quality in the sampled firms.

The study concludes that intellectual capital property plays a significant role in shaping financial reporting quality in Nigerian industrial goods companies. However, the effectiveness of intellectual capital disclosure depends on how specific components are managed and reported within corporate financial systems.

Based on the findings of this study, the study recommended that, listed industrial goods companies in Nigeria should strengthen their intellectual capital disclosure practices by ensuring comprehensive and transparent reporting of working capital components. Firms should improve documentation and reporting systems for payables and supplier payment transactions, as these have been shown to enhance financial reporting quality.

Also, corporate management should avoid excessive emphasis on cash receipt reporting without corresponding improvements in internal control and revenue recognition policies. Regulatory authorities such as the Financial Reporting Council of Nigeria should enforce



stricter monitoring of revenue disclosure practices to minimise earnings manipulation and enhance reporting integrity.

Again, industrial goods firms should invest in advanced accounting information systems and professional staff training programmes to improve the accuracy and reliability of financial disclosures. Continuous professional development for accounting personnel will enhance compliance with International Financial Reporting Standards (IFRS) and reduce reporting errors.

Finally, policymakers should encourage greater intellectual capital transparency by developing sector-specific disclosure guidelines for manufacturing and industrial firms in Nigeria. Such regulatory frameworks will improve corporate accountability and strengthen investor confidence in the Nigerian capital market.

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