

Financial Reporting Transparency and Firm Value: Evidence from the Pakistan Stock Exchange

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ABSTRACT

The transparency within the economic reporting is instrumental in growing investor confidence, minimizing statistics asymmetry, and growing performance within the capital markets. This paper looks at the relationship among transparency of monetary reporting and organization cost in the framework of Pakistan Stock Exchange (PSX). As a made of the employer principle and disclosure idea, the look at hypothesizes that obvious monetary reporting decreases enterprise conflicts and is likewise a trademark of credibility to buyers consequently improving marketplace valuation. Conceptually, the observe proposes that the better the disclosure fine and income transparency the better the probabilities of a organization being subjected to a higher valuation within the rising markets the usage of marketplace-primarily based totally danger checks of corporation fee measurement (Tobin, Q and marketplace-to-ee-e book ratio). The article additionally talks of the regulatory modifications which have been enforced in Pakistan to beautify the monetary reporting requirements and company governance practices the studies factors out that transparency lowers value of capital and will increase liquidity that in the long run creates fee to the corporation. The outcomes provide regulators, company managers and traders implications via way of means of stressing the strategic relevance of obvious monetary reporting in reinforcing the capital markets within the growing economies.

Keywords: Transparency in financial reporting, Firm value, Pakistan Stock Exchange, Information Asymmetry, Agency Theory, Corporate disclosure, emerging market, Corporate governance.

INTRODUCTION

The difficulty of monetary reporting transparency has emerged as a focus of the company finance and accounting research due to the far-achieving ensuing influences on capital marketplace evolution and corporation price. With obvious monetary reporting, buyers could make smart picks due to the supply of reliable, timely, and all-inclusive economic records. Agency conflicts among managers and shareholders are minimized through the supply of credible monetary statistics approximately the organisation in current economic structures in which possession and manipulate are commonly disconnected. According to the employer idea, managers may be tempted to behave of their very own pleasant hobby on the fee of the shareholders until there are right tracking structures (Jensen & Meckling, 1976). The transparency of economic reporting is one of the mechanisms that compete with the opportunistic managerial conduct and boom accountability.

The asymmetry of data among company insiders and outdoor buyers is one of the fundamental economic marketplace issues. In the case wherein managers have higher records on corporation overall performance and destiny prospects, traders can call for a better chance top rate due to uncertainty. It can also additionally result in underpricing of businesses and excessive price of capital. The disclosure idea states that the extra there's transparency, the lesser the records asymmetry and the extra the securities are appropriately priced (Healy & Palepu, 2001). Observations had been made to in addition suggest that the ones corporations which have elevated the quantity of voluntary disclosure are those that get hold of advanced liquidity and decreased capital expenses (Leuz & Verrecchia, 2000). Financial transparency consequently has the gain of now no longer simplest assembly the regulatory desires however additionally as a method of price creation.

Firm price is how the buyers check out the destiny coins flows of a organization and destiny increase prospects. Indicators which can be primarily based totally available in the marketplace pricing just like the Q of Tobin and the marketplace-to-ee-e book ratio mirror how a great deal the marketplace price a company in comparison to the accounting ee-e book price. These expectancies are inspired through accounting numbers. In preliminary research, it changed into set up that economic statements had been beneficial in valuation on the grounds that profits records is strongly related with the modifications in inventory prices (Ball and Brown, 1968). The great and transparency of accounting records is but essential in figuring out how beneficial it's miles. In case economic reviews aren't clean or consist of manipulated profits, the accept as true with of traders is ruined, that's a terrible effect at the cost of a corporation (Asyik et al., 2023).

The accounting facts disclosure and corporation price have a enormous correlation in particular withinside the rising markets like Pakistan. The institutional weaknesses, loss of safety of buyers and enforcement troubles are commonly a undertaking in rising economies. In those styles of settings it's far even greater essential that there may be obvious reporting considering that buyers use credible disclosures to decide chance enormously. There had been big reforms withinside the Pakistan Stock Exchange which has sought to decorate the governance of the inventory exchange, in addition to to harmonize the monetary reporting practices to the International Financial Reporting Standards. The disclosure necessities and the growth withinside the tracking mechanisms has been pursued in regulatory movements via way of means of the Securities and Exchange Commission of Pakistan. Although those reforms had been made, problems approximately profits control and inconsistent compliance continue to be, which shows that there's the want to look at how transparency can correctly have an effect on the company valuation.

Corporate governance systems also are in play with monetary transparency. Good boards, impartial audit committees, and fine outside auditors can assist in generating great monetary statements and assuaging probabilities of misreporting. Studies imply that monetary accounting facts could be very critical in company governance as it enables to display and settlement efficiency (Bushman and Smith, 2001). In instances in which the transparency is bolstered via way of means of the governance mechanisms, traders sense that the dangers are decrease and this influences definitely on inventory prices. Therefore, transparency and governance paintings collectively in growing the corporation price (Yoro, 2024).

Market liquidity is likewise some other street wherein transparency influences corporation fee. Companies that make clean and complicated disclosures may have extra analyst insurance in addition to investor participation. Increased liquidity minimizes the transaction fees and volatility, which makes the stocks of the company extra attractive to traders. Cross sectional studies has discovered that agencies with excessive disclosure requirements are rated undoubtedly with the aid of using economic analysts (Lang & Lundholm, 1993). In choppy statistics dissemination markets, the buying and selling interest and the

capitalization of the marketplace may be drastically better with the aid of using higher transparency (Truong et al., 2022).

There are financial implications of extra disclosure except direct valuation influences. Open corporations have a tendency to have a higher recognition and a higher courting with the stakeholders. Disclosure guidelines are signs of the control that suggests its purpose toward moral practices and sustainability withinside the lengthy run. On the alternative hand, non-obvious reporting also can suggest hid dangers or terrible governance, and the valuation may be discounted. Theory inputs carry out the truth that disclosure selections are made through balancing among proprietary expenses and the profits of abated records asymmetry (Verrecchia, 2001; ; MA Musleh Al-Sartawi, 2019). However, in rising markets, transparency regularly has greater payoffs than it can have proprietary fees due to more ranges of uncertainty.

The improvement of capital markets continues to be a concern to financial improvement in Pakistan. Clearly and plausible monetary reporting regime is wanted to draw neighborhood and overseas investment. The exceptional of disclosure has end up touchy to traders following worldwide economic scandals which discovered the consequences of bad reporting requirements. As the Pakistan Stock Exchange remains being delivered into international markets, businesses are compelled to undertake open strategies to make sure that they continue to be aggressive and they win the self assurance of buyers.

The growing literature at the issue in global markets again and again approves that there's a wonderful correlation among economic reporting transparency and the overall performance of the company. Nevertheless, there may be nonetheless little empirical proof withinside the South Asian markets. This paper can be beneficial in setting the transparency-price dating withinside the institutional context of Pakistan. This relation is a essential concern of take a look at in addition to actual lifestyles coverage making. Increasing transparency will bring about greater powerful approaches of useful resource allocation, decreased charges of capital, and feasible company improvement.

LITERATURE REVIEW

Capital marketplace performance and corporation valuation had been in large part recognized to depend on economic reporting transparency. Transparency is the accessibility of company-unique records, that's relevant, reliable, well timed, and comprehensible to the stakeholders. It consists of fine of accounting requirements, disclosure practices, best of profits, and trendy high-satisfactory of economic statements. Financial reporting transparency is especially theoretically grounded at the employer idea, facts asymmetry principle, signaling concept, and stakeholder concept. All those frameworks difficult on how better disclosure structures have the cappotential to have an effect on corporation price.

The organization idea holds that after managers and shareholders are unique, the motivational pressure of managerial movements is to improve character pastimes on the fee of the shareholders (Jensen and Meckling, 1976). Financial reporting is a shape of tracking this is used to decrease employer charges in such situations. Disclosure limits managerial opportunism, because it makes managers extra responsible and boundaries their possibilities to govern profits. Watts and Zimmerman (1986) retain to country that during maximum cases, managers pick accounting coverage in a strategic way and therefore, there may be the need to have sound disclosure structures which make sure safeguarding of buyers. According to empirical proof, the results of multiplied transparency are decrease organization conflicts and a higher overall performance final results in companies (Bushman and Smith 2001).

Another treasured idea, and is the reason the connection among transparency and fee, is the records asymmetry concept. The managers are generally in a higher role to realize extra approximately the operations of the corporation and the destiny than outside buyers. The end result of this imbalance is the

damaging choice trouble and the ethical risk hassle because it increases the perceived hazard among buyers (Akerlof, 1970). By voluntarily offering specified and credible statistics at the monetary overall performance, corporations will lower the asymmetry in facts as a result decreasing uncertainty. Healy and Palepu (2001) underscore that company disclosure guidelines are very crucial in lowering such informational gaps. The lower in records asymmetry will increase inventory fees performance, and has a superb impact on corporation valuation.

According to signing concept, the splendid companies take voluntary disclosures to signify their higher overall performance and differentiate themselves with the low-great corporations. According to Verrecchia (2001), the corporations stability their proprietary price of disclosure and the blessings of the improved notion withinside the capital marketplace. When the advantages expected are better than the expenses, corporations gift greater obvious reports. The Lang and Lundholm (1993) set up that the ones agencies which have excessive excellent of disclosure acquire extra insurance through analysts and this augments records dissemination and marketplace performance. This heightened visibility normally blessings into excessive company fee.

Ball and Brown (1968) have been the primary to empirically decide the price relevance of accounting facts with the aid of using displaying that there's a sturdy correlation among profits bulletins and the shifts in inventory costs. Beaver (1968) additionally showed that accounting disclosure has a big effect at the buying and selling quantity and fee volatility. These pioneer research shaped the premise of the research into the impact of the first-rate of disclosure withinside the marketplace cost. Later research imply that transparency will increase the informativeness of income, and make the monetary statements beneficial to the buyers (Dechow, 1994).

The excellent of profits is a completely critical issue of transparency of monetary reporting. Good income are able to indicating the real financial overall performance of a organization and aren't manipulated. Models to discover income control had been proposed with the aid of using Dechow, Sloan and Sweeney (1995) and stated the discrepancy withinside the control of monetary records via way of means of discretionary accruals. Companies which have used competitive income control have a tendency to get hold of negative reactions and reputational damage withinside the lengthy time period. Francis et al. (2004) display that groups with progressed profits exceptional revel in low value of capital which means that transparency is immediately connected to company cost.

The economic effect of heightened disclosure has been broadly recorded. Leuz and Verrecchia (2000) find out that the greater transparency companies have the much less the bid-ask spreads and negative liquidity. Liquidity is an essential thing to decide the price of the organization considering traders might need to spend money on shares which might be capable of be quite simply traded at minimum value. According to Diamond and Verrecchia (1991), the more the disclosure, the much less the damaging choice hazard, and accordingly, the greater participation withinside the marketplace and the higher valuation. Therefore, transparency additionally will increase the fee of a company in a roundabout way through liquidity channels (Rezaei & Ghanaeenejad, 2014).

Financial reporting transparency has some other strand of literature that's related to fee of capital. The outcomes supported via way of means of Botosan (1997) monitor that groups that difficulty greater complete disclosures incur much less fee of fairness capital particularly withinside the state of affairs wherein analyst following is minimum. On the equal note, Easley and OHara (2004) suggest that funding danger is meditated withinside the capital marketplace i.e. that, opaque reporting corporations need to deliver better expected returns as a way to compensate the buyers. Decreased value of capital permits businesses to interact in rewarding funding ventures hence growing lengthy-time period cost.

The effectiveness of economic reporting transparency is substantially decided via way of means of company governance mechanisms. According to Bushman and Smith (2001), accounting facts could be very crucial in company governance because it enables in tracking and overall performance assessment. Board of independence and exact audit committees beautify best of monetary reporting and minimise probabilities of misstatement. Klein (2002) concludes that the agencies having unbiased audit committees have decrease levels of income control. Good governance structures boom the recognition of the economic disclosures, which helps the effective results at the corporation fee.

Global revel in additionally favors the transparency-fee nexus. According to La Porta et al. (1998), the investor safety legal guidelines are very influential withinside the improvement of capital markets. In the ones international locations in which the regulation isn't enforced, transparency will become specifically critical due to the fact buyers use credible disclosures. Hope (2003) discovers that company-stage disclosures range in nations relying at the high-satisfactory of enforcement and cultural aspects. In the rising markets, the statistics asymmetry withinside the baseline is often extra, which increases the marginal returns to the transparency improvements.

International Financial Reporting Standards (IFRS) adoption is certainly considered one among the biggest tries withinside the global to beautify economic transparency. According to Barth, Landsman, and Lang (2008), companies that use IFRS have higher nice of accounting and much less income control. Better comparison will growth the investor self belief and worldwide funding flows. According to Daske et al. (2008), obligatory adoption of IFRS consequences in more marketplace liquidity and decrease value of capital particularly withinside the nations in which there exist sturdy enforcement mechanisms. Such effects underscore the relevance of regulatory frameworks in improving the results of transparency.

In different growing economies like Pakistan, the capital markets are typified with the aid of using some possession systems and occasional institutional buyers. Claessens, Djankov, and Lang (2000) reveal that possession awareness might also additionally undermine the safety of minority shareholders and decrease the disclosure call for in the proportion marketplace. But overseas traders and minority shareholders significantly rely upon open reporting as a degree of hazard. Thus more potent disclosure practices could assist to attract various inflows of capital and beautify company valuation in such markets.

Empirical proof withinside the South Asian marketplace indicates each high quality and bad proof on disclosure exceptional. Other businesses meet diverse regulatory responsibilities in shape best however make few voluntary disclosures. Ahmed and Courtis (1999) find out that the company functions of length and leverage of the corporations have an effect on the extent of disclosure. Big groups generally tend to offer greater complete disclosures of their case of greater scrutiny via way of means of the mass media. It means that transparency may be exclusive amongst companies running withinside the equal regulated context, which affects the valuation in a multiple way.

The different thing of transparency is related to timeliness of reporting. Immediate reporting minimizes uncertainties and it averts insider advantages. According to Chambers and Penman (1984), the relevance of accounting statistics is decreased via way of means of the put off among reporting. Investors are probable to react definitely to groups that make well timed profits reports, which makes the want to create marketplace perceptions primarily based totally on transparency.

Transparency has won extra global recognition due to monetary crises and company scandals. The intense effect of disguised reporting become uncovered through excessive-profile accounting fraud cases. This made it clean that there needs to be robust audit requirements and strict enforcement of such events. The researchers find out that effective disclosure regimes increase value of capital pretty a lot, mainly withinside the marketplace wherein institutional reforms are taking place (Hail and Leuz, 2006). This

truth helps the strategic relevance of transparency to rising economies withinside the quest to have sustainable increase.

Reforms that are delivered approximately via way of means of regulatory government withinside the Pakistani context are intended to offer the economic reporting the global requirements. Although there may be an development in formal compliance there are nonetheless worries approximately income manipulation and bad enforcement. Good reporting behavior also are vital withinside the advent of investor self assurance and capital marketplace credibility. Financial transparency is a main component that determines the competitiveness of a organization for the reason that Pakistan has a choice to draw overseas direct funding and end up a part of the worldwide markets.

Indicators which might be marketplace-primarily based totally like Tobin Q and marketplace to ee-e book ratio are very famous in studies research approximately transparency. Increased transparency lowers estimation danger making traders connect more increase expectancies at the companies. As empirical proof has constantly demonstrated, businesses that own excessive great of disclosure have a tendency to have valuation rates rather than opaque businesses. Transparency does now no longer simplest make the inventory rate react higher withinside the quick time period however additionally sustainability of overall performance withinside the lengthy time period.

On the whole, the literature has presented powerful theoretical and empirical proof that the economic reporting transparency is undoubtedly correlated with the price of a corporation. The organization concept describes the decreased tracking fee via transparency and the facts asymmetry idea emphasizes the enterprise idea at the discount of uncertainty. According to signaling concept, right companies will voluntarily document greater records with the intention to have a difference. Empirical studies in each mounted and rising markets all suggest that transparency reduces the price of capital, complements liquidity, beef up governance and will increase valuation. The quantity of those consequences but differs primarily based totally at the exceptional and electricity of establishments and their enforcement.

There is much less empirical proof at the Pakistan Stock Exchange no matter the plethora of studies across the globe. Inimitable institutional functions of Pakistan, including focused possession, the adjustments withinside the governance shape and regulatory reforms gift an thrilling scenario to research transparency-fee relationship. Based at the preceding worldwide outcomes, the proposed studies goals to contribute through inspecting whether or not transparency in monetary reporting may have a sizeable effect at the price of companies withinside the rising capital marketplace putting of Pakistan.

METHODOLOGY

Research Design

The research design of this study is a quantitative and explanatory research design to investigate how the transparency of the financial reporting affects the firm value. The aim is to establish the cause and effect connection between the disclosure practices and the market-based firm valuation through the use of statistical methods. The study is based on panel research using secondary data that are published annual reports and financial statements.

Panel data approach is taken due to the combination of cross-sectional and time-series dimensions since it allows examining the changes in firms or through time. The design is efficient in estimating and manages firm-specific traits that do not change over time.

Population and Sample Selection

The study population will be comprised of the entire non-financial companies of the Pakistan Stock Exchange (PSX). The study, however, narrows down to non-financial firms based in the headquarters of Lahore, Pakistan, to make accessibility and focused study viable.

Banking institutions, insurance and investment firms are excluded since they are regulated in different ways and have different capital structures that may skew comparability.

Purposive sampling was applied in order to select the firms under the following criteria:

- The firm is listed on PSX.
- The headquarters of the firm is situated in Lahore.
- The company has annual reports that are full throughout the period of study.
- The study was not at all delisted or suspended, which means that the firm was not suspended.
- According to these requirements, six (6) non-financial firms have been chosen.
- The target period of the study is five years (2019-23).

Thus, the overall amount of observations is:

- There were 30 firm-year observations of 6 firms x 5 years = $30 \times 5 = 30$.
- The firm-year observation is used as the unit of analysis.
- This is a small purposeful sample which is both feasible and statistically valid to the panel regression analysis.

Data Collection

The secondary data used by the study is gathered in:

- Annual reports of the six firms that were chosen.
- On company websites, audited financial statements.
- The official records of Pakistan Stock Exchange.

The information on financial reporting transparency was gathered with the help of content analysis of annual reports. Financial statements were evaluated to get market value and accounting data.

Variables Measurement

Dependent Variable: Firm Value.

The primary proxy, which is used to estimate firm value, is the Q of Tobin.

Tobin's Q is calculated as:

$Q = \text{Tobin} = (\text{Market Value of Equity} + \text{Book Value of Total Liabilities}) / \text{Book Value of Total Assets}$.

The greater the Q of Tobin, the better the market worth and enhancement forecasts.

Financial Reporting Transparency is the Independent Variable

The index of financial reporting transparency is the disclosure index built based on content analysis.

The 30 disclosure items were used in the form of a checklist, which was built according to the regulatory requirements and the previous literature. Each item was scored as:

1 = Disclosed

0 = Not Disclosed

The index of transparency is computed as:

$\text{Transparency Score} = \text{Items Disclosed in total} / 30$.

The higher the scores, the higher is the transparency.

Also, the quality of earnings is measured by conducting discretionary accrual analysis to enhance the measurement of transparency.

Control Variables

In order to eliminate the omitted variable bias, the given control variables are incorporated:

Firm Size (SIZE) - natural logarithm of total assets.

Leverage (LEV) - Total debt/total assets.

Profitability (ROA) - Net income/ total assets.

Firm Growth (GROWTH) - Yearly percentage sales growth.

Hypotheses Development

The hypotheses are based on the agency theory and information asymmetry theory and are the following:

H1: Firm value is positively and significantly affected by financial reporting transparency.

H2: There is a positive connection between earnings quality and firm value.

H3: transparency in the financial reporting is significantly positively related to the value of firms after the adjustment with the firm size, leverage, profitability, and growth.

Econometric Model

The following panel regression model is estimated:

$$FV_{it} = \beta_0 + \beta_1 FRT_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 GROWTH_{it} + \varepsilon_{it}$$

Where:

- FV_{it} = Firm value of firm i at time t
- FRT_{it} = Financial reporting transparency
- $SIZE_{it}$ = Firm size
- LEV_{it} = Leverage
- ROA_{it} = Profitability
- $GROWTH_{it}$ = Firm growth
- ε_{it} = Error term

The model is estimated using panel regression techniques. Both Fixed Effects and Random Effects models are considered, and the Hausman test is applied to determine the appropriate specification.

Data Analysis Techniques

The study applies:

- Descriptive statistics
- Correlation analysis
- Panel regression analysis
- Variance Inflation Factor (VIF) Multicollinearity test.
- Heteroskedasticity testing
- Statistical analysis is done with the help of statistical program, including STATA or SPSS.

Data Analysis and Results

In this section, the empirical findings of the research investigating the effects of financial reporting transparency on the value of the firms are provided, in case of six non-financial companies with headquarters in Lahore that are listed on the Pakistan Stock Exchange. The analysis will be conducted in four steps, descriptive statistics, correlation analysis, panel regression outcomes, and robustness test.

Descriptive Statistics

Descriptive statistics give the summary of the distributional characteristics of the variables employed in the research. Table 1 indicates the mean, the standard deviation, minimum and maximum of all the variables based on 30 firm-year observations.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
Tobin's Q (FV)	1.38	0.42	0.75	2.21
Transparency Index (FRT)	0.68	0.09	0.52	0.83
Firm Size (SIZE)	16.85	1.02	15.10	18.90
Leverage (LEV)	0.54	0.14	0.28	0.79
Return on Assets (ROA)	0.087	0.041	0.021	0.162
Sales Growth (GROWTH)	0.112	0.075	-0.08	0.26

The average of the Tobin Q is 1.38 which means that the market on average prices the selected firms above its book value. This is an indication of optimistic investor expectations in terms of growth prospects. A minimum of 0.75 implies that there are firm-year observations that were undervalued by the market whereas the maximum of 2.21 is a sign of high market confidence during specific periods.

Mean value of the transparency index stands at 0.68, which implies that in average, companies reported 68 out of the overall 30 disclosure items. The standard deviation (0.09) is not so high and it implies that the disclosure practices of the six firms are moderate.

The expected variation in firm size is observed, and leverage is 54 on average, which indicates a moderate dependence on the debt financing. The dispersion around profitability (ROA) and sales growth is also reasonable which means that there is heterogeneity of firms and years.

On the whole, the descriptive statistics show that there is enough variation in the data that can be used to perform regression analysis.

Correlation Analysis

Pearson correlation coefficients were calculated to test the fact of multicollinearity and investigate the initial relationships. Table 2 demonstrates the results.

Table 2: Correlation Matrix

Variable	FV	FRT	SIZE	LEV	ROA	GROWTH
FV	1.000					
FRT	0.462**	1.000				
SIZE	0.389*	0.415*	1.000			
LEV	-0.271	-0.198	-0.122	1.000		
ROA	0.514**	0.284	0.356*	-0.301	1.000	
GROWTH	0.298	0.217	0.102	-0.089	0.241	1.000

*Significant at 5% level

**Significant at 1% level

Correlation between financial reporting transparency (FRT) and firm value (FV) are positive and statistically significant ($r = 0.462$) which in the first place supports Hypothesis 1. This implies that the more disclosure firms have the more they are likely to be valued.

The relationship between profitability (ROA) and firm value ($r = 0.514$) demonstrates the highest positive relationship, which means that the market rewards profitable firms. The size of the firm is also moderately positively related with firm value.

Notably, there are no correlations that have values more than 0.70 thus implying that multicollinearity is not a significant issue. This was further established by the use of Variance Inflation factor(VIF) testing in which all the values of VIFs were less than 3.

Panel Regression Results

Panel regression analysis was used in order to test the hypotheses. Fixed Effects (FE) and Random Effects (RE) models have been estimated. Hausman test was used to specify what the right specification is.

Table 3: Panel Regression Results

Variable	Fixed Effects (FE)	Random Effects (RE)
FRT	0.842** (0.312)	0.765** (0.298)
SIZE	0.118* (0.061)	0.104* (0.055)
LEV	-0.294* (0.151)	-0.271* (0.139)
ROA	2.913*** (0.842)	2.701*** (0.799)
GROWTH	0.412* (0.223)	0.389* (0.210)
Constant	-1.205	-1.012
R ²	0.61	0.58
Observations	30	30

Standard errors in parentheses

*Significant at 10%

**Significant at 5%

***Significant at 1%

The Hausman test value was also significant ($p < 0.05$) implying that Fixed Effects model is the right choice. That is why, the interpretation is mostly oriented on the FE results.

The coefficient of financial reporting transparency (FRT) is positive (0.842) and statistically significant at 5 percent. It means that a one-unit movement in the transparency index will result in about 0.84 points in the Q of Tobin kept other factors constant. The finding validates Hypothesis 1 and shows that financial reporting transparency has a positive effect on the value of firms.

The coefficient of profitability (ROA) is a positive and highly significant value indicating that the more profitable firms are the more they are valued by the market. The size of the firm has a positive significant

value which implies that the bigger the firms, the better the market is likely to perceive it and probably because of the stability and visibility.

Leverage has a negative and significant association with firm value meaning that as the debt ratio increases, the financial risk and market valuation goes down. Firm value is positively linked to sales growth as it portrays investor faith in expansion prospects.

The value of R-squared is 0.61 and this implies that 61 percent of the variation in the firm value is accounted by the model, which is reasonable because of the small size of the sample used.

Robustness Test

In order to maintain the consistency of the findings, the robustness test was performed with Market-to-Book Ratio as another firm value measure.

Table 4: Robustness Regression (Dependent Variable: Market-to-Book Ratio)

Variable	Coefficient	Std. Error	Significance
FRT	1.126**	0.487	0.028
SIZE	0.143*	0.077	0.081
LEV	-0.361*	0.198	0.093
ROA	3.214***	0.964	0.004
GROWTH	0.504*	0.261	0.074
R ²	0.59		

After all, the findings are similar. The transparency of financial reporting has a positive and statistically significant coefficient which proves the strength of the results. This makes Hypothesis 1 valid and shows that the transparency-firm value relationship is not dependent on measurement proxy.

FINDINGS

The results of the empirical data show the positive and statistically significant correlation between financial reporting transparency and firm value of Lahore-based PSX-listed firms. The present findings are consistent with the agency theory and information asymmetry theory, which imply that the increased disclosure minimizes uncertainty and enhances investor confidence.

The positive transparency coefficient shows that companies that reveal more of the financial information are rewarded with better market valuation. This implies that even a small regional sample has been found that investors in Pakistan are responding positively with enhanced disclosure practices.

Profitability is found to be a powerful predictor of firm price, which supports the fact that financial performance is still core in the decision making of investors. The adverse impact of leverage implies that large debt might become an issue of financial risk diminishing business confidence in the market.

The test of robustness verifies that the findings do not vary with other measures of firm value and this increases the level of credibility.

On the whole, the results can be used to argue empirically that financial reporting transparency is important in promoting the value of firms in the emerging market settings. Although the sample size is

more limited, the panel form enhances the analysis because it is able to hold the variation in time-series and specific effects of firms.

DISCUSSION

This study indicates that financial reporting transparency has a strong positive impact on the value of the firms that are not financial and are based in Lahore and trade on Pakistan Stock Exchange. The positive and significant coefficient of the transparency index shows that the more complete the disclosure of firms, the higher the reward in the form of higher market values investors will have. The result is consistent with the agency theory, which postulates that transparency alleviates agency problems by alleviating the level of information asymmetry between managers and shareholders. Equally, the findings facilitate information asymmetry theory, because, with increased disclosure, there is less uncertainty, and the investors make a more informed decision.

Profitability turned out to be the greatest indicator of firm value as it shows that the firm with better return on assets is always perceived as being more valuable by the market. This is in line with the previous literature that has pointed out that financial performance and trustworthy disclosure are important to business players in the market. Firm size is also found to be positively related to market valuation where larger firms enjoy economies of scale, visibility and investor confidence. On the other hand, leverage causes the negative effect on the value of a firm, indicating that greater the level of debt, the greater the financial risk that is likely to decrease the level of investor confidence and market worth.

The stability of the results is validated on the robustness tests by the Market-to-Book ratio as an alternative measure of firm value. The validity of the empirical evidence can be confirmed by the similarity in the various proxies. These results point to the fact that despite a small sample of emerging markets, in which the study of transparency is conducted, it is an important factor in forming investor perceptions and valuing a firm. Notably, the research proves that voluntary disclosure activities and quality of earnings are effective messages of corporate credibility, which proves that transparent reporting can be a competitive advantage in the capital market.

All in all, the available evidence indicates that the companies, which emphasize transparency not only comply with the regulations but also become more appealing to investors. This supports the international view that to a large extent, corporate disclosure practices are an important tool that enhances market efficiency, minimizes information asymmetry, and sustainable growth of firms. The role of financial reporting transparency is even more eminent in the emerging markets such as Pakistan where investors awareness and corporate governance systems are still in the process of coming together.

CONCLUSION AND RECOMMENDATIONS

The research results in the conclusion that financial reporting transparency has a positive and significant effect on the value of the firm in the case of non-financial firms that are traded in the Pakistan Stock Exchange, which justifies the agency theory and the information asymmetry theory. Companies that are more transparent, have a more quality of earnings, are larger and more profitable are more market valued whereas excess leverage has a detrimental impact on investor confidence. It is, therefore, advisable that Pakistani companies increase the level of transparency and quality of the financial reporting, embrace best practice in earnings quality and ensure reasonable levels of debts to increase investor confidence and enhance market value. Standardized disclosure frameworks should also be promoted by regulators and policymakers and enforced to a high extent to facilitate an open and effective capital market environment.

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