

# Strategic Human Resource Information Disclosure and Firm Market Value: A Theoretical Study on the Pathways of Influence

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## Abstract

In the context of the knowledge economy, human capital has become a critical source of competitive advantage for firms. However, the value of human capital is inherently difficult for external stakeholders to observe, creating information asymmetry that may lead to market undervaluation. Strategic human resource information disclosure serves as a potential mechanism for firms to signal their human capital quality and management capabilities to capital markets. Drawing upon signaling theory, resource-based view, and stakeholder theory, this study develops a theoretical framework to examine the pathways through which strategic human resource disclosure affects firm market value. The analysis identifies three primary pathways: a direct signaling effect whereby human resource disclosure reduces information asymmetry and enhances investor confidence; an indirect governance effect whereby the disclosure process itself reflects broader organizational capabilities; and a stakeholder response effect whereby disclosure influences the behavior of multiple stakeholder groups. The study further explores boundary conditions that moderate these effects, including disclosure characteristics (content type, detail level, verifiability), firm characteristics (ownership structure, size, industry), and institutional environment (regulatory intensity, market development). The theoretical framework provides a foundation for empirical testing and offers implications for corporate disclosure strategy and regulatory policy.

## Keywords

Strategic human resource disclosure, Firm market value, Signaling theory, Information asymmetry, Stakeholder theory

## Introduction

In the contemporary economic landscape, human capital has become increasingly central to firm value creation. Unlike physical assets, which can be readily observed and valued through conventional accounting methods, human capital - comprising the knowledge, skills, and capabilities embedded within a firm's workforce - resists easy quantification [1]. This intangibility creates fundamental challenges for external stakeholders seeking to assess firm value. Investors, analysts, and other capital market participants rely on disclosed information to form judgments about firm prospects. When human capital remains opaque, firms with superior human resource practices may fail to receive appropriate market recognition, leading to undervaluation and increased cost of capital [2].

Information disclosure has long been recognized as a

mechanism for mitigating information asymmetry between firms and capital markets [3]. While financial disclosure has received extensive scholarly attention, non-financial disclosure - including environmental, social, and governance information - has emerged as an important area of inquiry.

Within this broader category, strategic human resource information disclosure represents a distinct but understudied phenomenon. Strategic human resource disclosure refers to the voluntary or mandatory communication of information about a firm's human resource practices, workforce composition, talent development initiatives, and related matters. Such information is typically disclosed through channels including annual reports, sustainability reports, and corporate websites.

The existing literature on human resource disclosure remains fragmented. Some studies have examined the determinants of human resource disclosure, finding that firm size, industry, and ownership structure influence disclosure practices [4]. Other research has explored the relationship between human resource disclosure and firm performance, with mixed results. However, the mechanisms through which human resource disclosure affects market value remain undertheorized. Moreover, the boundary conditions that moderate this relationship have received limited attention.

This study addresses these gaps by developing a theoretical framework for understanding how strategic human resource information disclosure influences firm market value. Drawing upon signaling theory, resource-based view, and stakeholder theory, the study proposes three pathways: direct signaling effects, indirect governance effects, and stakeholder response effects [5]. The framework also identifies key moderating factors that shape the strength and direction of these effects.

The study makes several contributions. First, it provides a comprehensive theoretical account of the relationship between strategic human resource disclosure and firm market value, addressing a gap in the existing literature. Second, it synthesizes insights from multiple theoretical perspectives to illuminate the mechanisms underlying this relationship. Third, it identifies boundary conditions that may explain inconsistent findings in prior empirical research. Finally, it offers a foundation for future empirical testing and provides implications for managerial practice and regulatory policy.

## **Theoretical foundations**

### ***Signaling theory and information asymmetry***

Signaling theory provides a foundational lens for understanding how firms communicate with capital markets. The theory addresses situations of information asymmetry, where one party (the firm) possesses information that the other party (investors) does not. In such contexts, the informed party may engage in signaling behavior - voluntarily disclosing information to reduce asymmetry and influence the perceptions of the uninformed party.

For signals to be effective, they must satisfy certain conditions. First, signals must be observable; the

receiving party must be able to perceive the signal. Second, signals must be costly; if signals were costless, all firms would send them, and they would cease to convey meaningful information. Third, signals must be difficult to imitate; otherwise, firms with inferior attributes could send false signals [6].

In the context of human resource disclosure, firms with superior human capital may choose to disclose detailed information about their workforce, training programs, and human resource practices. Such disclosure is costly - requiring resources for data collection, verification, and reporting - and difficult for firms with inferior human resources to credibly imitate. Thus, strategic human resource disclosure can serve as a credible signal of human capital quality and management capability.

### ***Resource-based view of human capital***

The resource-based view posits that firms achieve sustainable competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable. Human capital has been identified as such a resource, with the potential to generate sustained competitive advantage when properly managed.

However, the resource-based view also acknowledges that the value of human capital is not directly observable. Human capital is embedded within individuals, and its potential for value creation depends on complex organizational processes. This embeddedness creates challenges for external stakeholders attempting to assess firm capabilities. If stakeholders cannot observe a firm's human capital, they may undervalue the firm even when superior human resources exist.

Strategic human resource disclosure can address this challenge by making human capital more visible. When firms disclose information about workforce composition, skill levels, training investments, and human resource management practices, they provide stakeholders with evidence of the firm's human capital quality. This visibility may enable firms to realize the full value of their human capital investments [7].

### ***Stakeholder theory and multiple audiences***

Stakeholder theory suggests that firms must attend to the interests of multiple stakeholder groups, including shareholders, employees, customers, and communities. Each stakeholder group has distinct information needs, and firms may engage in disclosure to address these

needs.

In the context of corporate human resource disclosure, multiple key stakeholder audiences are relevant. Investors seek information about human capital to inform their valuation decisions. Employees seek information about opportunities for professional development and career advancement. Potential employees seek information about organizational culture and fair employment conditions. Customers and business partners may consider human resource practices when making contracting decisions [8].

Strategic human resource disclosure thus serves multiple functions. It signals to investors the quality of firm management and human capital. It communicates to current employees that the firm values their development. It attracts potential employees by demonstrating organizational commitment to human resources. It builds trust with customers and other stakeholders by showing attention to workforce welfare. These multiple effects may collectively influence firm market value through various channels.

### **Conceptual framework and pathways**

#### ***Strategic human resource disclosure: Concept and dimensions***

Strategic human resource disclosure encompasses the voluntary or mandatory communication of information regarding a firm's human capital and human resource management practices. Based on prior literature, strategic human resource disclosure can be conceptualized along several dimensions.

The first dimension concerns content type. Some disclosures focus on workforce composition, including information about employee demographics, skill distribution, educational attainment, and diversity. Other disclosures address human resource practices, such as recruitment processes, training programs, performance management systems, and compensation structures. Still others report on human resource outcomes, including productivity measures, retention rates, employee satisfaction, and talent pipeline metrics. The second dimension concerns detail level. Disclosures may range from broad statements of human resource philosophy to detailed quantitative information about specific metrics. More detailed disclosures may provide greater information content but also require

greater investment in data collection and verification.

The third dimension concerns verifiability. Some disclosures, such as third-party certifications or audited metrics, provide high verifiability. Others, such as qualitative descriptions of human resource practices, offer lower verifiability. Verifiability affects the credibility of signals and may influence market responses.

#### ***Firm market value: Measurement considerations***

Firm market value represents the collective assessment of investors regarding the present value of expected future cash flows. Market value is influenced both by current performance and by expectations about future performance [9].

In the context of strategic human resource disclosure, market value may be affected through multiple channels. First, disclosure may influence investor expectations about future cash flows by providing information about human capital quality and management capability. Second, disclosure may affect the discount rate applied to those cash flows by reducing information asymmetry and perceived risk. Third, disclosure may influence the behavior of other stakeholders, which in turn affects future performance.

#### ***Direct signaling pathway***

The direct signaling pathway suggests that strategic human resource disclosure affects firm market value by reducing information asymmetry between firms and investors. When firms disclose information about their human capital and human resource practices, they provide investors with previously unavailable information that may alter valuation judgments.

For this pathway to operate, several conditions must be met. First, the disclosed information must be relevant to valuation. Investors must believe that human capital information is predictive of future performance. Second, the disclosed information must be credible. Investors must perceive that the information accurately reflects the firm's true human capital condition. Third, the disclosure must differentiate firms with superior human capital from those without. If all firms disclose similar information, the signaling value is diminished.

Empirical research on non-financial disclosure supports the existence of direct signaling effects. Studies have found that environmental disclosure reduces

information asymmetry and lowers cost of capital. Social responsibility disclosure has been associated with improved market valuation. While direct evidence on human resource disclosure remains limited, analogous findings suggest that such disclosure may similarly affect market outcomes [10].

#### ***Indirect governance pathway***

The indirect governance pathway suggests that strategic human resource disclosure affects firm market value by reflecting broader organizational capabilities. The decision to engage in detailed, verifiable human resource disclosure may itself signal the quality of firm management and governance.

Firms that invest in sophisticated human resource information systems, that collect and verify detailed workforce data, and that voluntarily disclose such information may possess superior management capabilities more generally. These capabilities extend beyond human resource management to encompass broader organizational functions. Thus, strategic human resource disclosure serves as a proxy for overall management quality.

This perspective aligns with research on corporate governance disclosure. Studies have found that firms with stronger governance practices tend to provide more extensive disclosure, and that such disclosure is associated with better market outcomes. Similarly, firms with higher quality management may signal their capabilities through strategic human resource disclosure.

The indirect pathway also encompasses the disciplining role of disclosure. When firms commit to regular disclosure of human resource information, they subject themselves to external scrutiny. This scrutiny may incentivize improved human resource management practices, creating a feedback loop from disclosure to actual performance [11].

#### ***Stakeholder response pathway***

The stakeholder response pathway suggests that strategic human resource disclosure affects firm market value by influencing the behavior of stakeholder groups other than investors. These behavioral effects, in turn, shape future firm performance and market valuation.

Current employees may respond to human resource disclosure by developing greater commitment to the

firm. When firms disclose information about training investments, career development opportunities, and workforce welfare, they signal that employees are valued. This may enhance job satisfaction, reduce turnover, and increase discretionary effort.

Potential employees may respond by being more attracted to firms that disclose favorable human resource information. In competitive labor markets, the ability to attract high-quality candidates is a critical competitive advantage. Strategic human resource disclosure can serve as a recruitment tool, signaling that the firm offers favorable employment conditions.

Customers and business partners may respond to human resource disclosure by forming more favorable impressions of the firm. When customers perceive that a firm treats its employees well, they may develop greater trust and loyalty. Business partners may prefer to associate with firms that have strong human resource practices, viewing such firms as more reliable and stable [12].

Each of these stakeholder responses may ultimately affect firm market value. Improved employee retention reduces recruitment and training costs. Enhanced recruitment quality improves organizational capabilities. Greater customer loyalty increases revenue stability and reduces marketing costs. Thus, the stakeholder response pathway links human resource disclosure to market value through multiple intermediate outcomes.

#### **Boundary conditions and moderating factors**

##### ***Disclosure characteristics***

The effectiveness of strategic human resource disclosure in influencing market value depends on the characteristics of the disclosure itself. Three characteristics are particularly salient.

Content type may moderate the signaling effect. Disclosures that provide quantitative, verifiable information may be more credible than qualitative descriptions. Disclosures that focus on outcomes rather than processes may be more informative about actual human capital quality. Disclosures that address aspects of human capital that are material to firm performance may be more value-relevant.

Detail level may also matter. Highly detailed disclosures provide more information for investors but may also impose greater costs on firms. The optimal

level of detail may vary across firms and contexts. In some cases, excessive detail may create information overload, reducing the effectiveness of disclosure.

Verifiability is critical for signal credibility. Disclosures that can be verified through third-party audits or certifications are likely to be more credible than unverifiable claims. When signals are not credible, they cannot effectively reduce information asymmetry.

#### ***Firm characteristics***

The relationship between strategic human resource disclosure and market value may be moderated by firm characteristics. Ownership structure may influence both the propensity to disclose and the market response to disclosure. State-owned enterprises may face different disclosure incentives than private firms. Foreign-owned firms may adopt different disclosure practices than domestic firms [13].

Firm size may moderate the relationship. Larger firms may have more resources to invest in disclosure and may face greater pressure to disclose. However, larger firms may also have more complex human capital structures, making disclosure more challenging. Market responses to disclosure may differ for large and small firms due to differences in investor attention and information availability.

Industry may moderate the relationship. In human capital-intensive industries, such as technology or professional services, human resource disclosure may be more value-relevant than in capital-intensive industries. Industry norms and practices regarding disclosure may also shape both disclosure behavior and market expectations.

#### ***Institutional environment***

The institutional environment in which firms operate shapes both disclosure practices and market responses. Regulatory intensity varies across jurisdictions. Some regions impose mandatory human resource disclosure requirements, while others rely on voluntary disclosure. Mandatory requirements may reduce the signaling value of disclosure because firms cannot choose whether to disclose.

Market development may also moderate the relationship. In developed capital markets with sophisticated investors, the market may be more capable of processing and responding to human resource information. In less developed markets, information

processing capacity may be limited, reducing the effectiveness of disclosure.

Cultural factors may influence disclosure effectiveness. In cultures that place high value on social responsibility and stakeholder welfare, human resource disclosure may be particularly valued. In cultures that prioritize shareholder returns above other considerations, the market response may differ [14].

#### **Conclusion**

##### ***Summary of theoretical contributions***

This study has developed a theoretical framework for understanding how strategic human resource information disclosure affects firm market value. The framework integrates signaling theory, resource-based view, and stakeholder theory to identify three pathways: direct signaling effects, indirect governance effects, and stakeholder response effects, as well as the key internal logic behind each pathway. It also identifies key boundary conditions that may moderate these effects.

The theoretical contributions are threefold. First, the study provides a comprehensive account of the mechanisms linking human resource disclosure to market value, addressing a gap in the existing literature. Second, it synthesizes insights from multiple theoretical perspectives, demonstrating how these perspectives complement and reinforce each other. Third, it identifies boundary conditions that may explain inconsistent findings in prior empirical research.

##### ***Implications for practice***

The theoretical framework has implications for managerial practice. For firms seeking to enhance market value through disclosure, the framework suggests that not all disclosure is equally effective. Disclosure content matters; quantitative, verifiable information about human capital outcomes may be more valuable than qualitative descriptions. Disclosure context matters; the market response may depend on firm characteristics and institutional environment. Firms should therefore tailor their disclosure strategies to their specific circumstances.

The framework also has implications for regulatory policy. If strategic human resource disclosure enhances market value and reduces information asymmetry, there may be a case for encouraging or requiring such disclosure. However, mandatory disclosure may reduce

signaling value. Regulators must balance the benefits of increased information availability against the costs of reduced differentiation among firms.

#### **Limitations and future research directions**

This study has several limitations. As a theoretical study, it does not provide empirical evidence for the proposed relationships. The relationships identified here require empirical testing using appropriate data and methods. Future research should undertake such testing, using both large-sample quantitative approaches and in-depth qualitative studies.

Several specific research directions emerge from this study. First, research is needed to develop valid and reliable measures of strategic human resource disclosure. Existing measures vary widely, making comparison across studies difficult. Second, research should examine the proposed mediating mechanisms directly, rather than simply testing main effects. Third, research should explore the boundary conditions identified here, investigating how disclosure characteristics, firm characteristics, and institutional environment moderate the disclosure-value relationship. Fourth, future research might examine the costs of strategic human resource disclosure. The framework assumes that benefits exceed costs, but disclosure imposes real costs on firms. Understanding these costs and how they vary across contexts is important for both managerial decision-making and regulatory policy. Fifth, research might explore the dynamic aspects of disclosure. How does disclosure evolve over time? How do market responses change with repeated disclosure? These questions remain largely unexplored.

Finally, cross-country research could illuminate how institutional differences shape the disclosure-value relationship. Countries differ in their regulatory approaches to human resource disclosure, in the sophistication of their capital markets, and in cultural attitudes toward human capital and social responsibility. Examining these differences could yield important insights into the contextual dependence of disclosure effects.

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