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Growth Without Capability: Firm Expansion, Biological Asset Valuation and the Post Listing Erosion of Financial Reporting Quality in Zambia's First Listed State-Owned Enterprise

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Abstract:

The governance literature treats firm size as a reliable correlate of financial reporting quality and treats stock market listing as a durable disciplining device. This article tests both propositions in a setting that has been almost entirely neglected, namely a listed state-owned enterprise in the forestry sector of a low-income African economy. Using six years of post-listing data from Zambia Forestry and Forest Industries Corporation Plc, the first state owned enterprise to list on the Lusaka Securities Exchange, the study examines the association between firm size and reporting quality and tests whether reporting quality differed between the early and later post listing periods. Reporting quality is proxied by the ratio of operating cash flow to net income. Given six annual observations, the analysis is deliberately confined to bivariate correlation and a one-way analysis of variance, supported by a qualitative reading of governance documents and stakeholder perspectives. Firm size is strongly and negatively associated with reporting quality, with a Pearson coefficient of negative 0.741 that is significant at the ten per cent level and accounts for approximately fifty-five per cent of the variation in the dependent variable. Mean reporting quality fell from 0.131 in 2018 to 2020 to 0.049 in 2021 to 2023, a difference significant at the five per cent level with an eta squared of 0.775. The two findings describe a single mechanism: rapid, valuation intensive asset growth, dominated by biological assets measured at fair value under International Accounting Standard 41, outran the accounting and audit capability that the enterprise had built at listing, detaching reported earnings from operating cash. The results qualify the conventional size effect, show that listing discipline is a stock that depreciates rather than a permanent endowment, and generate specific implications for securities regulators, government shareholders and the boards of state-owned issuers in African capital markets. Findings are indicative rather than confirmatory and are offered as a hypothesis for panel testing.

Keywords: Financial Reporting Quality; State Owned Enterprises; Firm Size; Biological Assets; IAS 41; Post Listing Governance; Zambia

1. Introduction

Two propositions are so widely accepted in the corporate governance literature that they are commonly relegated to the status of control variables. The first is that larger firms report more reliably, because scale brings better accounting systems, closer analyst and regulatory scrutiny, and more reputational capital at risk. The second is that admission to a public equity market improves the quality of financial reporting, because listing imposes International Financial Reporting Standards, an independent audit, continuous disclosure obligations and the discipline of an outside investor base. Both propositions are supported by substantial evidence from advanced economies and from the larger emerging markets, and both are routinely assumed to travel.

This article reports evidence from a setting in which neither proposition holds in the expected form. Zambia Forestry and Forest Industries Corporation Plc, hereafter ZAFFICO, is the first state owned enterprise to be listed on the Lusaka Securities Exchange, admitted in 2018 through a partial public offering. It is a forestry enterprise whose principal assets are standing plantations measured at fair value under International Accounting Standard 41, Agriculture, and it remains majority owned by the state. It therefore sits at the intersection of three literatures that rarely meet: the governance of state owned enterprises, the reporting consequences of fair value measurement in agriculture and forestry, and the development of reporting quality in newly listed firms in thin capital markets.

The article addresses two questions. First, what is the direction and strength of the association between firm size and financial reporting quality at ZAFFICO over the post listing period from 2018 to 2023? Second, did financial reporting quality differ significantly between the early post listing years of 2018 to 2020 and the later years of 2021 to 2023? These two questions are drawn from a wider study that also examined board size and institutional ownership. They are isolated here because they are the questions on which the evidence is strongest and on which the contribution to knowledge and to policy is clearest. The board size and institutional ownership results were null, and with six annual observations a null result is close to uninformative; the size and sub period results, by contrast, are large in magnitude, mutually consistent, and contrary to the dominant expectation in the literature, which is precisely the combination that warrants publication and policy attention.

The findings are that firm size is strongly and negatively associated with reporting quality, and that mean reporting quality in the later post listing period was less than half its level in the early period, a difference that is statistically significant and very large in effect size. Read together, and read alongside the qualitative evidence, the two results describe one mechanism rather than two findings: asset growth in a valuation intensive enterprise outpaced the reporting capability that listing had initially induced, and the gap between accrual based earnings and operating cash widened accordingly.

The article makes three contributions. Theoretically, it identifies the conditions under which the standard positive size effect reverses, and it recasts listing discipline as a capability that depreciates rather than as a permanent institutional endowment. Empirically, it provides the first evidence on financial reporting quality in a listed Zambian state owned enterprise and, more broadly, the first such evidence from the forestry sector in Sub Saharan Africa. In policy terms, it identifies a monitoring failure that is invisible to the compliance based supervision practised in many African markets, in which an issuer may satisfy every formal disclosure requirement while the cash backing of its reported earnings deteriorates year on year.

The article proceeds as follows. Section 2 describes the institutional setting. Section 3 develops the theoretical argument and the hypotheses. Section 4 sets out the data and the analytical strategy, including an explicit defence of the decision to confine the analysis to methods that six observations can support. Section 5 reports the results and Section 6 discusses them. Section 7 draws out the policy implications, Section 8 states the limitations, and Section 9 concludes.

2. Literature Review

2.1 Institutional setting

The Zambian reporting and enforcement environment

Listed companies in Zambia report under International Financial Reporting Standards and are subject to the Companies Act of 2017, the Securities Act, the supervision of the Securities and Exchange Commission and the listing requirements of the Lusaka Securities Exchange. The formal architecture is therefore conventional. Its operation is not. Mwila and Phiri (2020) describe an enforcement environment constrained by limited institutional capacity, by the influence of political considerations within state affiliated enterprises and by the persistence of informal governance practice. The exchange itself is small and illiquid, with few analysts producing independent research and few institutions engaging in active stewardship. The practical consequence is that the outward form of compliance is far easier to secure than its substance, a distinction that Institutional Theory anticipates and that this article treats as central rather than incidental.

This matters for the interpretation of any governance study conducted in such a market. Where enforcement is capacity constrained and where the investor base is passive, the monitoring channels through which governance is presumed to operate are weak, and reporting quality becomes correspondingly more dependent on the internal capability of the issuer and on the rigour of its external audit. The empirical implication is that variables capturing internal capability and the complexity of what must be reported should carry more explanatory weight than variables capturing formal governance structure.

Listed state owned enterprises

Listed state owned enterprises occupy a distinctive governance position. They are subject simultaneously to the accountability obligations of the public sector and to the disclosure obligations of the capital market, and their controlling shareholder pursues objectives that are not confined to shareholder value. The Organisation for Economic Co-operation and Development (2024) revised its guidelines on the corporate governance of state owned enterprises precisely because these dual obligations generate recurrent difficulties in board nomination, disclosure and the separation of ownership from regulation. Dragomir, Dumitru and Feleaga (2021) document how political intervention can defeat formal governance structures in a listed state owned firm, and Jin, Xu, Xin and Adhikari (2022) show that political governance mechanisms in Chinese state owned enterprises operate alongside, and sometimes displace, conventional monitoring. In the African context, Kaunda and Pelser (2023) find that governance arrangements in state owned enterprises in a least developed economy are associated with performance outcomes only weakly, and attribute this to appointment practice and to the dilution of board independence. The Organisation for Economic Co-operation and Development (2025) records that Africa hosted one hundred and twenty two listed state owned enterprises by the end of 2024, a population large enough to matter and small enough to have attracted almost no accounting research.

ZAFFICO and the reporting consequences of forestry

ZAFFICO was established in 1982 to create and manage industrial forest plantations and to process timber. Its listing in 2018 was the first partial privatisation of a Zambian state owned enterprise through a public equity offering. Its balance sheet is dominated by standing timber, which International Accounting Standard 41 requires to be measured at fair value less costs to sell, with changes recognised in profit or loss. Where no active market exists for immature standing timber, fair value must be estimated from assumptions about growth rates, future selling prices, harvesting costs and discount rates, over rotation cycles that extend beyond two decades. Small revisions to those assumptions produce large movements in reported profit that are not accompanied by any movement in cash.

The accounting literature has documented this problem consistently. Huffman (2018) shows that the value relevance of fair value measurement under International Accounting Standard 41 depends on how the asset is used, and that reporting price changes for assets held for use rather than for sale introduces earnings volatility that users do not find informative. The wider evidence records fair value volatility, the subjectivity of unobservable inputs and the limited availability of reliable market data as the principal practical difficulties in applying the standard, and associates lower disclosure quality with indications of earnings management. For an enterprise whose growth consists largely of the expansion and revaluation of biological assets, this means that growth mechanically enlarges the accrual component of earnings. That observation is the analytical foundation of this article.

2.2 Theory and hypotheses

Reporting quality as the cash backing of earnings

Financial reporting quality is understood here as the degree to which reported earnings faithfully represent underlying economic performance (Dechow, Ge and Schrand, 2010). The measure adopted is the ratio of cash flow from operations to net income, which follows the accruals tradition established by Sloan (1996) and Dechow and Dichev (2002). The rationale is direct: earnings supported by operating cash are less susceptible to discretion, whereas a wide divergence between accrual based profit and operating cash indicates that reported performance rests on estimates. The measure is a blunt instrument, and it does not distinguish between opportunistic accruals and accruals that arise mechanically from a required measurement basis. That limitation is acknowledged, but the measure is well suited to the present question, because the specific accruals of interest, namely fair value gains on biological assets, are exactly the item that widens the gap the ratio captures.

Agency Theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) provides the standard account of why governance should affect this ratio: managers hold private information and may exercise reporting discretion in their own interest, and governance mechanisms exist to constrain that discretion. The theory is retained here, but it is supplemented, because the results reported below cannot be explained by managerial opportunism alone. Dynamic Capabilities Theory (Teece, Pisano and Shuen, 1997) supplies the missing element. It treats an organisation's capacity to sense, seize and reconfigure as something built over time, and it implies that the ability to produce reliable accounts in a judgement intensive environment is itself a capability that must be invested in, maintained and expanded in step with the complexity of what is being reported.

Firm size and reporting quality: the contested sign

Firm size normally enters governance models as a control with an expected positive sign. Larger firms are held to have more developed accounting systems, more qualified staff, larger audit fees and more to lose from misstatement, and evidence from Sub Saharan African samples reports positive associations of this kind (Ogbebor, Ifurueze and Ofor, 2022; Adeniyi et al., 2024). Ackah, Mensah, Ayamga, Muda and Al-Faryan (2024) similarly find that ownership and structural characteristics shape governance quality across Sub Saharan African firms in ways broadly consistent with the scale argument.

The dissenting argument is theoretically straightforward and empirically underexplored. Size is not only scale; it is also complexity. Where growth is capital intensive, where it is concentrated in assets whose carrying amounts are estimated rather than transacted, and where it occurs faster than the accounting function can be strengthened, an increase in size raises the estimation content of the accounts. If reporting quality is measured by the cash backing of earnings, and if growth adds non cash accruals faster than it adds reporting capability, then the association between size and measured reporting quality will be negative. This is not a failure of the scale argument so much as a boundary condition on it: the positive size effect presupposes that capability accumulates at least as fast as complexity. Forestry is a setting in which that presupposition is likely to fail, because the growth of the asset base and the growth of the estimation problem are the same event.

Hypothesis 1. Firm size is negatively associated with the financial reporting quality of ZAFFICO over the post listing period.

The depreciation of listing discipline

The literature on initial public offerings has long recognised that the accounting behaviour of newly listed firms changes over time, and that the period immediately following admission is not representative of what follows (Teoh, Welch and Wong, 1998). Two mechanisms operate in opposite directions in the present setting. Listing imposes an immediate step change in obligation: adoption of International Financial Reporting Standards in full, an independent external audit, a functioning audit committee, and public scrutiny of the accounts. This produces an initial improvement in reporting quality that is real. But the obligation is discharged by a capability that has just been assembled, and capability depreciates unless it is renewed. If the enterprise subsequently grows quickly, if the estimation content of its accounts increases, if key accounting staff turn over, and if the macroeconomic environment deteriorates, then the initial improvement will not persist.

This reasoning yields a prediction that the cross sectional literature cannot generate, namely that reporting quality in a newly listed state owned enterprise will follow a trajectory rather than settle at a level, and that the trajectory will be one of early improvement followed by decline unless capability investment is sustained.

Hypothesis 2. Mean financial reporting quality at ZAFFICO was significantly higher in the early post listing period of 2018 to 2020 than in the later period of 2021 to 2023.

3. Data and method

3.1 Design and case selection

The study is a single case, mixed methods design combining a quantitative analysis of six annual observations from 2018 to 2023 with a qualitative reading of governance documents and stakeholder perspectives. The case is selected on theoretical rather than statistical grounds. ZAFFICO is not one of many listed Zambian state owned enterprises; at the time of study it is the first and, in the relevant sense, the only one. It is therefore an instance of a category rather than a sample from a population, and the appropriate inferential ambition is analytical generalisation to theory rather than statistical generalisation to a population (Yin, 2018).

3.2 Variables and measurement

Table 1. Variable definitions and measurement

Variable	Symbol	Measurement	Source
Financial reporting quality	FRQ	Cash flow from operations divided by net income	Audited financial statements
Firm size	FS	Natural logarithm of total assets	Statement of financial position
Sub period	Phase	Categorical: 2018 to 2020 versus 2021 to 2023	Constructed
Board size	BS	Number of directors serving in the financial year	Governance statements
Institutional ownership	IO	Natural logarithm of institutional shareholding	Shareholding register

3.3 Analytical strategy and its proportionality to the data

Six annual observations impose a hard constraint that must be confronted rather than concealed. A multivariable regression with three predictors and six observations would exhaust the degrees of freedom, would produce coefficient estimates whose standard errors are uninterpretable, and would confer an entirely spurious appearance of rigour. The analysis is therefore restricted to methods whose assumptions six observations can plausibly support: Pearson and Spearman bivariate correlation for the size hypothesis, and a one way analysis of variance for the sub period hypothesis. Effect sizes are reported alongside significance levels throughout and are given interpretive priority, because with six observations statistical power is low and the absence of significance is uninformative, whereas the magnitude of an association remains meaningful.

Two consequences follow and are accepted openly. First, no causal claim is made. The evidence establishes association and temporal sequence, and the causal reading offered in the discussion is a theoretical interpretation supported by qualitative evidence, not a statistical result. Second, the findings are indicative. They are offered as a well specified hypothesis for testing on panel data, not as a settled result.

3.4 Qualitative strand

The qualitative strand comprises a thematic reading of annual reports, corporate governance statements, audit committee reports and external audit opinions across the study period, together with stakeholder perspectives on governance and reporting practice. Its function is explanatory rather than confirmatory. It is used to interrogate what the statistical patterns mean, and in particular to establish whether the mechanism proposed in Section 3, namely capability strain under valuation intensive growth, is discernible in the documentary record.

4. Results

4.1 Descriptive statistics

Table 2. Descriptive statistics, 2018 to 2023 (n = 6)

Variable	Mean	Std. dev.	Minimum	Maximum	Skewness
FRQ	0.090	0.051	0.039	0.164	0.65
Board size (directors)	7.83	0.75	7.00	9.00	0.31
Institutional ownership (log)	18.357	0.099	18.228	18.421	-0.97
Firm size (log)	21.514	1.019	20.444	22.749	0.17

Source: Author's computation from ZAFFICO annual reports.

Reporting quality averaged 0.090 with a standard deviation of 0.051, so the dispersion is more than half the mean and the series is far from stable. Firm size rose monotonically across the period, from 20.444 to 22.749 in logarithms, which corresponds to approximately a tenfold increase in the asset base. All skewness statistics lie within the conventional band of plus or minus one. The critical descriptive observation, and the one that motivates both hypotheses, is that the variable which rose steadily is firm size and the variable which rose then fell sharply is reporting quality.

4.2 Firm size and financial reporting quality

Table 3. Bivariate associations with financial reporting quality

Variable	Pearson r	p	Spearman rho	p	r squared
Board size	+0.126	0.812	0.000	1.000	0.016
Institutional ownership	-0.375	0.464	-0.414	0.414	0.141
Firm size	-0.741	0.092	-0.543	0.266	0.550

Source: Author's computation.

Firm size shows a strong negative association with reporting quality. The Pearson coefficient of negative 0.741 is large by any conventional benchmark, is significant at the ten per cent level, and implies that firm size accounts for approximately fifty five per cent of the variation in reporting quality across these years. Hypothesis 1 is supported at the ten per cent level.

Three qualifications are entered immediately. First, the Spearman coefficient of negative 0.543 is weaker and not significant, which indicates that the Pearson result draws part of its strength from the particular configuration of the points rather than from a strictly monotonic relationship. Second, with six observations the ten per cent threshold is a weak evidentiary standard. Third, firm size increased monotonically over a period in which other things also changed, so the association cannot by itself distinguish a size effect from any other trending influence. The correct reading is that reporting quality was systematically lower in the years in which the asset base was larger, that the magnitude of the relationship is substantial, and that the direction is contrary to the dominant expectation in the literature.

4.3 The post listing trajectory

Reporting quality rose from 0.091 in 2018 to a peak of 0.164 in 2020, fell abruptly to 0.039 in 2021, and recovered only partially to 0.051 and 0.057 in 2022 and 2023. The series therefore has an obvious structural break rather than a trend, which motivates the sub period test.

Table 4. One-way analysis of variance of financial reporting quality by sub period

Source of variation	Sum of squares	df	Mean square	F	p
Between groups	0.010086	1	0.010086	13.77	0.021
Within groups	0.002930	4	0.000733		
Total	0.013016	5			

Source: Author's computation.

Mean reporting quality was 0.131 in the early post listing period and 0.049 in the later period, a decline of 0.082 or approximately sixty-three per cent. The difference is significant at the five per cent level, $F(1, 4) = 13.77$, $p = 0.021$, and the eta squared statistic of 0.775 indicates that the division of the period into two phases accounts for over three quarters of the total variation in reporting quality. Hypothesis 2 is supported. This is the strongest quantitative result in the study, and it is strong on three independent criteria: statistical significance despite minimal power, a very large effect size, and practical magnitude, since the later figures are less than half the earlier ones.

The two results are not independent findings. The later, lower quality years are the years of the largest asset base, so the negative size association and the sub period decline are two views of a single pattern. The value of testing both is that they fail in different ways: the correlation is vulnerable to the influence of individual points, while the analysis of variance is vulnerable to the arbitrariness of the break point. That they agree is more informative than either result alone.

4.4 Qualitative evidence on the mechanism

The documentary and stakeholder evidence supports the proposed mechanism at each step. The early post listing gains are associated with investment in accounting systems, the recruitment of qualified staff and a more demanding external audit following the transition to full International Financial Reporting Standards on admission. The later decline is associated with three converging pressures: rapid growth in the asset base, the judgement intensive fair value measurement of biological assets under International Accounting Standard 41, and a macroeconomic environment marked by currency depreciation and inflation. The evidence describes an accounting function that was adequate to the reporting problem of 2018 and that did not expand at the rate at which the reporting problem itself expanded. This is capability strain, and it is a different phenomenon from either weak governance structure or managerial opportunism, neither of which the documentary record supports as the primary explanation.

4.5 Discussion

The boundary condition on the size effect

The negative size association contradicts the dominant expectation but not the theory that generates it. The scale argument holds that size proxies for capability and scrutiny. It is silent on what happens when size also proxies for estimation complexity, and it implicitly assumes that capability grows at least as fast as complexity. This study identifies the setting in which that assumption fails: an enterprise whose growth consists of acquiring and revaluing assets that must be measured using unobservable inputs. In such a setting each increment of size adds two things at once, namely additional reporting obligation and additional estimation uncertainty, and it adds the second faster than an accounting function of fixed capacity can absorb it. The contribution is therefore a boundary condition rather than a refutation. The positive size effect should be expected to hold where growth is transactional and to weaken or reverse where growth is valuation intensive. This proposition is testable on wider samples and generates a clear empirical prediction, namely that the sign of the size coefficient in reporting quality models should vary systematically with the proportion of assets measured at fair value using level three inputs. That prediction, to the author's knowledge, has not been tested in an African sample and is offered here as a research agenda rather than as an established result.

Listing discipline as a depreciating asset

The sub period result carries the more general implication. The improvement in reporting quality after admission is consistent with everything the literature predicts about the disciplining effect of listing. The subsequent decline shows that this effect is not self sustaining. Listing supplies an obligation and, initially, the resources and attention to meet it; it does not supply a mechanism that automatically scales that capability as the reporting problem grows. Where the external monitoring environment is thin, as it is in a small market with few analysts and passive institutional holders, nothing external compels the renewal of capability, and the initial gain erodes quietly while formal compliance is maintained throughout.

This is where Dynamic Capabilities Theory earns its place in an accounting study. Reporting quality is treated here not as an outcome of a governance structure but as the output of an organisational capability that is built, maintained or allowed to decay. The practical corollary is that the relevant question for a regulator is not whether an issuer complied at listing but whether its reporting capability has kept pace with the complexity of its balance sheet since.

Implications for the state ownership literature

The findings connect to the state ownership literature at a specific point. Political influence over appointments and the passivity of state linked institutional holders (Dragomir, Dumitru and Feleaga, 2021; Jin et al., 2022; Kaunda and Pelser, 2023) are usually studied for their direct effects on governance quality. This study suggests an indirect and less visible channel. Where the controlling shareholder is the state, the pressure to invest in accounting capability ahead of growth is weak, because the shareholder is not primarily a user of the financial statements for valuation purposes and because expansion is often driven by mandate rather than by an investment case that must be defended to the market. Growth is thus more likely to run ahead of reporting capability in a state owned issuer than in a comparable private one, which makes the pattern documented here a plausible general risk in the population of one hundred and twenty-two listed African state owned enterprises reported by the Organisation for Economic Co-operation and Development (2025).

4.6 Policy implications

The findings speak to four distinct decision makers, and the recommendations are stated so that each knows what to do.

Table 5. Policy implications by actor

Actor	Evidence	Recommended action	Expected outcome
Securities and Exchange Commission and Lusaka Securities Exchange	Reporting quality declined while formal compliance was maintained throughout	Supplement compliance based supervision with monitoring of earnings quality indicators, including the ratio of operating cash flow to reported profit, and require enhanced disclosure of level three valuation inputs by issuers with material biological or other estimated assets	Deterioration becomes visible to the regulator at the time it occurs rather than in retrospect
Government shareholder	Growth in the asset base outpaced accounting and audit capability	Make approval of major expansion conditional on a demonstrated prior strengthening of the accounting, valuation and internal audit function, and nominate directors on financial and sectoral competence	Capability investment precedes rather than follows growth
ZAFFICO board and audit committee	The gap between accrual earnings and operating cash widened as biological assets expanded	Commission independent review of biological asset valuation assumptions, disclose the sensitivity of profit to growth, price and discount rate assumptions, and report cash conversion alongside earnings	Judgement intensive areas receive scrutiny proportionate to their effect on reported profit
Standard setters and audit regulators	Fair value measurement under International Accounting Standard 41 detaches profit from cash in long rotation forestry	Consider sector specific guidance and enhanced disclosure requirements for long rotation biological assets, and require that fair value gains be presented separately from realised operating performance	Users can distinguish realised performance from unrealised remeasurement

Source: Author’s construction from the findings.

One implication deserves emphasis because it is easily missed. Throughout the period of decline, the issuer remained compliant. Its statements were audited, its disclosures were filed, and its governance statements described a functioning board and audit committee. A supervisory approach built on verifying compliance would have detected nothing. What deteriorated was a property of the accounts that no compliance checklist captures, namely the extent to which reported profit was supported by cash. That is an argument for supplementing rule based supervision with a small number of analytical indicators, and it applies to every thin market in which a state owned issuer is listed.

5 Conclusions

5.1 Conclusion

This article examined two questions in the post listing history of Zambia's first listed state owned enterprise: whether firm size was associated with financial reporting quality, and whether reporting quality differed between the early and later post listing periods. Firm size was strongly and negatively associated with reporting quality, and mean reporting quality in the later period was less than half its early level, a difference that was statistically significant and very large in effect. Both results run against the dominant expectations of the literature, and both are explained by a single mechanism: valuation intensive growth in a forestry enterprise expanded the estimation content of the accounts faster than the enterprise expanded the capability required to support it, so reported profit progressively detached from operating cash.

The theoretical contribution is to specify a boundary condition on the size effect and to recast listing discipline as a depreciating capability rather than a permanent endowment. The policy contribution is to identify a form of deterioration that compliance based supervision cannot see, and to propose the indicators and disclosures that would make it visible. The evidence is drawn from one enterprise over six years and is offered accordingly, as a carefully specified hypothesis for testing rather than as a settled finding. Given the number of state owned issuers now listed on African exchanges, and given how many of them hold assets measured at fair value using unobservable inputs, that hypothesis merits testing.

5.2 Contributions to knowledge and Limitations of the study

Three important contributions to the literature on financial reporting quality, corporate governance and state owned enterprises are: First, the paper identifies a boundary condition to the generalization that larger firms offer higher quality financial reports. Whereas, prior studies propose a positive relation between firm size and reporting quality, resulting from increased resources, more effective governance mechanisms and tighter external monitoring of financial reports, the paper finds evidence that the reverse may hold true when the firms' growth is spurred by valuation intensive assets which induce accounting complexity at a higher pace than the firm's ability to prepare and present quality reports. Thus, the paper adds to the existing literature that growth does not necessarily lead to improved reporting quality.

Second, the paper makes theoretical contribution by proposing organizational accounting capability as the mechanism that links the firm's growth to financial reporting quality. Previous research on state ownership of enterprises links outcomes of financial reports to political considerations, board effectiveness, ownership concentration, or agency concerns. This study identifies an additional and less obvious channel by which reporting quality can be affected. Given that in SOEs expansion is largely propelled by developmental or strategical considerations, rather than by value considerations from the markets, it is possible that investment in financial accounting system and capabilities lags the growth of the organisations, rendering earnings reports increasingly dependent on complex estimation and not necessarily on underlying cash flows. This mechanism could be a possible explanation to deteriorating quality of financial reports for some state-owned enterprises despite them continuing to comply with financial reporting standards and being subjected to external audits.

Third, the paper provides empirical evidence on the issue from a single listed state owned enterprise in Africa, the ZAFFICO, which is the first state-owned company listed in Zambia. Given that there is dearth of studies concerning the quality of financial reports of listed state owned enterprises in Africa, and specifically, about biological assets accounting under the International Accounting Standard (IAS) 41, the paper highlights how valuation-intensive growth has diminished the earnings quality relationship with operating cash flows. This evidence not only is relevant for ZAFFICO but could also be of general applicability to the population of listed state-owned enterprises in African markets and this suggests a testable hypothesis.

However, limitations also abound. Firstly, this is a single-case design that draws on six annual accounting observations from a listed state-owned enterprise. Therefore, the generalizability of the results is limited to an analytical generalization of a theoretically sound mechanism, and it cannot be said to have a high statistical generalizability for other firms. Further studies should use panel data of several listed state-owned enterprises in several African capital markets to test and provide strong external validity to the mechanism described in the paper.

Secondly, financial reporting quality has been proxied using a single measure of cash-based earnings quality that captures the extent to which reported earnings is explained by operating cash flows. Other dimensions of financial reporting quality, such as earnings persistence, timeliness, the level of disclosure, or discretionary accruals are not included. In the future it might be useful to complement the use of this measure with other accounting-based proxies to check for the robustness of the results to alternative measure of financial reporting quality. Finally, the firm's expansion process is taking place during a general environment with major changes in the macro economy of Zambia and thus it cannot be excluded that external environmental factors affect both company growth and financial reporting quality of the firm in the analyzed time period. Though, Qualitative evidence supports the mechanism identified in the article, Future research can supplement this study with additional control for macroeconomic changes or conduct analyses of samples of companies for controlling those effects.

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