IRANIAN JOURNAL OF ACCOUNTING, AUDITING & FINANCE

journal homepage: https://ijaaf.um.ac.ir

Voluntary Information Disclosure: A Tool for Organizational Leadership

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ABSTRACT

Financial information disclosure of the annual reports is considered as a key area for accounting research and many research is conducted on this issue both in the developed and developing countries. In this research, we examined the elements that affect the voluntary disclosure of the companies listed on Tehran Stock Exchange. For the purpose of this study five variables are examined: Age, Size, profitability, complexity of business, and assets in place. A multi variable model was examined for a 7-year period (2011-2017). Our results show that there is a significant association between profitability and complexity and the disclosure level. However, there is an insignificant relationship between firm size, asset in place and firm age, and the level of voluntary disclosure.

Keywords: Voluntary disclosure, annual reports, firm size, firm age, profitability.

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https://doi.org/10.22067/ijaaf.v2i2.75366

1. Introduction

Financial information disclosure in the annual reports is a key issue in accounting studies. Many studies have been conducted in this field in the developed (Bradbury, 1992, Raffournier, 1995; Hossain et al., 1995, Bazrafshan et al., 2016) and developing countries (Cooke, 1991; Chow et al.1987; Hossain et al., 1994; Ferguson et al., 2002;Hossain&Reaz, 2007; Hossain et al., 2008). The annual report is an important element in the disclosure affairs since it is concerned as the widest information resource for the firms, especially corporations (Todd and Sherman, 1991). Voluntary disclosure refers to the information required for explaining the content of financial statements (Kumar et al., 2008). In other words, voluntary disclosure is used for representing more information with managerial motivations (Healy and Palepu, 2001).

The literature review shows that there are many ways for providing benefit for the firm or its manager from disclosure promotion (Healy et al., 1999). Moreover, while information disclosure is asocial demand, the mutual effect of the costs and their benefits may result in dispense with the disclosure of some items. In these conditions, the question raised is whether the disclosure is voluntarily or compulsory. In the literature of accounting and economy, this view has been supported from the aspect of information asymmetry that disclosing secretive information increases economic efficiency and the size of its related efficiency; then, the final effect on the financial conditions depends on the information content of the disclosed items, disclosure method, and the methods of using it (Hossain and Reaz, 2007). Thus, it is expected that the firms voluntarily tend to disclose information and bear the direct and indirect consequences of it at the expense of gaining benefits (Ferguson et al., 2002).

However, voluntarily information disclosure in the firms of Tehran Stock Exchange is not conducted regularly and expectedly and such conditions can be observed in most of the Middle East countries (Hossain and Hammami, 2009).The most important factor which simulated this study was the increased understanding of voluntarily disclosure mechanisms in Iran and identifying weakness and strengths of the trends in practice which were not concerned in the standards as expected. Accordingly, this study examines the relationship of corporate features and its voluntary disclosure level.

2. Research theories and hypotheses development

Corporate decisions on the voluntary disclosure depends on the firms′ expectation from the rivals and investors’ beliefs (Dontoh, 1989). In many recent studies, it has been supposed that corporate voluntary disclosure is determined regarding the control of the interests′ conflict of the shareholders, creditors, and managers (Watts & Zimmerman, 1986). Regarding interests′ conflict, it can be inferred that basic motivations of voluntary disclosure depends on the corporate features (Chow et al., 1987).

A comprehensive review of voluntary disclosure literature was conducted by Healy and Palepu (2007). They suggested that decisions′ direction about voluntary disclosure depends on the information role in reporting for the people in the capital market. In fact, academic researchers, professionals, and regulators consider the voluntary disclosure as an important factor in decreasing information asymmetry in/ outside the organizational setting (Gandia, 2005). In Healy and Palepu(2007), five factors were identified as effective in the decisions of voluntary disclosure of the capital market: hypothesis of capital market exchanges, hypothesis of conflict over corporate control, hypothesis of reward stocks, hypothesis of legal costs, and hypothesis of owner issues. A summary of these hypotheses was examined by Collett and Hrasky(2005). They suggested the following points:

Hypothesis of capital market exchanges- Companies have motivation for voluntarydisclosure to decrease the information asymmetry and reduce financial provision costs.

Hypothesis of conflict over corporate control: When the corporate performance isweak, managers try to increase value by voluntary information disclosure, lowering the danger of job loss.

Hypothesis of reward stocks-If managers ′ reward is given in the form of thestocks, they will be motivated to decrease the possibility of suggesting destructive points using the voluntary disclosure. Also, the company will be motivated for the voluntary disclosure to decrease the contractual costs with the managers who will gain reward stocks.

Hypothesis of legal costs: Managers tend to disclose bad news to prevent legalcontacts for insufficient disclosure and reduce the disclosure of the predictions which question these items.

Hypothesis of owner issues- If managers note that information disclosure hascompetitive disadvantages, voluntary disclosure will be limited.

It has been experimentally shown that disclosure is a complex function of several factors: inter and intra organizational features related to the firm affected by the surrounding environmental factors such as culture, legal system, and corporate history (Lopes and Rodrigues, 2007). Besides, corporate stockholders demand information disclosure on the corporate operations to have a better understanding of their decision-making basis (Stolowy & Lebas, 2006). On the other hand, International Accounting Standards Committee (1986) suggested that the information provided by the business firms should be useful in the decision-makings of the users and understandable, related, reliable, comparable, and on time.

To understand the motivations and benefits of the voluntary disclosure, debate on its features is essential. There are many studies on the advantages of voluntary disclosure (Iatridis, 2008; Mcknight & Tomkins, 1999). Motivations of voluntary disclosure can be summarized in 4 groups:

1-Managers are responsive for their responsibilities and should reach their financial and business goals and information disclosure is the informative tool in this regard.

2-Managers tend to disclose information on their performances to attract capital markets (McKnight and Tomkins, 1999). In case of insufficient disclosure, managers tend to disclosure voluntarily for decreasing the legal costs (Skinner, 1994).

4-Since managers want to show the investors that they are aware of the economic environment of the company and can respond fast to the changes, they use voluntary disclosure and offer predictions (Trueman, 1986).

All mentioned points provide the investors with positive information which affect the stock return and market value, positively (La Porta et al., 2000;Reese&Weisbach, 2002). At the same time, the companies are unwilling to disclose the information which affects their competitive situation (Newman &Sansing, 1993).

There are many studies on the measurement of information disclosure in the developed and developing countries (Wallace and Naser, 1995; Alsaeed, 2006; Aljifri, 2008; Wang et al., 2008).

Studying the firms of Qatar Stock Exchange, Kamal et al. (2006) found that differences in the information disclosure of the firms are related with firm size, business risk, and corporate growth. . Aljifri (2008) found four contributing factors to the disclosure level: firm type (bank, insurance, industrial and service), firm size, debt to specific value ratio, and profitability.

Examining Saudi Arabian firms, Alsaeed found a positive and significant correlation between firm size and information disclosure level. While debt amount, ownership disparity, membership years in the stock exchange market, profit margin, industry type, and audit type have no significant effect on the disclosure levels.

Hossain and Reaz (2007) examined the Indian companies and found a relationship between some corporate features and voluntary disclosure of the firms. They found that Indian banks disclose a significant amount of information voluntarily. Also, there was a significant relationship between firm size and disclosure level. This is while firm age in the stock market, activity variation, CEO reward, and complexity of the activity had no relationship with the disclosure level. By examining the Chinese firms, Wang et al.(2008) found that disclosure level is positively and significantly correlated with the ownership ratio of foreign stockholders, auditor reputation, and corporate performance measured by specific value return.

Firm age

Disclosure level may be affected by the firm age (Owusu-Ansah, 1998). They pointed to three points in this regard:

1-Younger firms may suffer from competitive disadvantages in case of disclosing definite items such as research costs, capital costs, and product development.

2-Cost and ease of collection, processing, and disclosing required information. These costs are higher in the new firms than the older firms.

3-Newer firms may not be able to gather information, record, or retain it for any weakness, leading to the shortage of information disclosure. Accordingly, the first hypothesis is stated as follows:

H_1.Older firms tend to disclose more information than the younger firms.

Firm size

Firm size has been used as an exploratory variable in the difference of voluntary disclosure level. Ahmed and Nicholls (1995) found that larger firms have more resources and skills for production; thus, they need more to disclose information. Wallace and Naser (1995) found that firm size is a function of growth and the growth of a firm needs financing from outside. Thus, more comprehensive information is required. Accordingly, the second hypothesis is designed as follows:

H_2. Voluntary disclosure is positively related to the firm size.

Profitability

Many studies have referred to the positive correlation of profitability and disclosure level of the firm (Watts and Zimmerman, 1986; Wallace and Naser, 1995). Based on agency theory, more profitable firms tend to disclose more information for the interests of people. For example, managers may disclose more information for retaining their own situations and rewards (Inchausti, 1997). Accordingly, hypothesis three is formulated as follows:

H_3. Voluntary disclosure level is positively related to profitability.

Firm complexity

Haniffa and Cooke (2002) suggested that structural complexity is important in explaining the difference of disclosure level.

Furthermore, Courtis(1987) suggested that in case of the existence of structural complexity, the firm will need an efficient managerial information system for monitoring the activities. The existence of such a system decreases information production at the level of any unit leading to the disclosure of more information. Thus, the fourth hypothesis is formulated as follows:

H_4. Voluntary disclosure level is positively related to firm complexity.

Ratio of fixed assets

Hossain and Mitra (2004) found that the ratio of fixed assets affects the disclosure level of multinational American companies systematically. Butler et al.(2002) stated that in the companies where the ratio of tangible assets is higher, agency problems are lower since their misuse is more difficult for the managers. Since these companies have more fixed assets, they are less dependent on information disclosure and decrease the agency problems. In some studies, the lack of a significant correlation between the ratio of tangible assets and disclosure level has been referred (e.g. Raffournier, 1995). Accordingly, the fifth hypothesis is formulated as follows:

H_5. The ratio of fixed assets is related to voluntary disclosure level.

3. Methodology

Statistical population consisted of listed firms on Tehran Stock Exchange since 2011-2017. Using systematic random sampling, the sample was selected concerning the four following criteria:

1-The selected firm should be listed on the Tehran Stock Exchange since 2011.

2-Their financial statements and other data should be available since 2011-2017.

3-There should be no transaction halt over 3 months in the determined study time.

4-The company should be affiliated with banks, credit funds, and other monetary institutions, intermediaries, and multi-field industrial companies.

Based on the mentioned conditions, 73 firms were selected as the sample.

Selecting the items of voluntary information disclosure

Decisions on the items which should be disclosed voluntarily are subject to judgment. Selecting those items depends on the nature of the company and its related industry. In some studies, financial firms′ reporting (e.g. Islamic banks) and international financial institutes (e.g. IMF and World Bank) have been noticed. Some organizations in the private and public sectors such as FASB in America, International Accounting Standards Committee, International Accounting Standards Board and Standard & Poor's offered some guidelines. Finally, after reviewing various literature and guidelines of professionals, a 44-item set of recommended voluntary disclosure was gathered. Annual reports of all sample firms were examined in the study span, gaining the score of 1 in case of disclosure, otherwise, 0. Calculating the primary information disclosure score by each firm was conducted using the following equation:

Equation (1).

$$DCOR=\sum_{j=1}^{44}\frac{dj}{n}$$

Where,

DCOR=Cumulative disclosure score

dj=If jth item is disclosed, takes the score of 1, otherwise, 0.

n=Maximum score each firm can obtain

Variables and the model of the study

DCOR index was used as an index for the dependent variable of the study. Independent variables and their signs are reflected in Table 1.

Regression model

The following OLS regression model was used for examining the effect of each variable on the disclosed data in relation to DCOR index and the related hypothesis test: Equation (2).

$I_{i,t} = \beta_0 + \beta_1 Age_{i,t} + \beta_2 Size_{i,t} + \beta_3 Profitability_{i,t} + \beta_4 Complexity_{i,t} + \beta_5$ Assets in $place_{i,t} + \varepsilon_{ij}$

Where,

I =scores of voluntary disclosure for the sample firms

Variable	Definition	Expected sign
Age	Number of the years after entering stock exchange market	+or -
Size	Natural logarithm of total assets	+
Profitability	Return on equity=Sum of equity holders/ net profit	-
Operational complexity	Number of subsets	+
Ratio of fixed assets	Total assets/ fixed assets	+

Table 1. Variable of the study

4. Results

Based on Figure (1), the significance level of the F statistic is below 5% implying that the defined pattern is significant and reliable. Profitability coefficient of the company is -0.224 and the t-value of -3.498 at the confidence level of 95% had a negative and significant correlation with the disclosure index. However, the variables of firm age, operational complexity, and the ratio of fixed assets of the company considering their significance level does not have a significant correlation with the dependent variable. In case variance inflation factor (VIF) is below 10, there is no collinearity among variables. In Figure (1), VIF of all variables is below 10, implying no collinearity among the variables. Moreover, the significance of the Durbin-Watson statistic showed that there is no autocorrelation. Accordingly, H_1, H_3, and H_4 are rejected and just H2 is confirmed.

$I_{i,t} = \beta_0 + \beta_1 Age_{i,t} + \beta_2 Size_{i,t} + \beta_3 Profitability_{i,t} + \beta_4 Complexity_{i,t} + \beta_5$ Assets in $place_{i,t} + \varepsilon_{ij}$

variance inflation factor	Std.Error	Sig	t	Coefficient	Research variables
1.119	0.000	0.377	0.885	0.06	Age
1.279	0.010	0.549	-0.60	-0.006	Size
1.004	0.020	0.001	-3.498	-0.224	Profitability
1.161	0.003	0.175	1.362	0.094	Complexity
1.047	0.035	0.277	1.090	0.071	Assets in place
	0.019	0.000	22.525	0.438	C

Determination coefficient = 0.071
modified determination coefficient = 0.055
Durbin-Watson =1.679
F=4.384 likelihood = 0.0000

Fig 1. Results of hypothesis test

5. Conclusion

This study examines the contributing factors to the disclosure level and the data of 73 listed firms on Tehran Stock Exchange. Results showed that just profitability is negatively and significantly correlated with the disclosure level. The negative correlation of these variables could be that in the time of loss or earnings′ decrease, firms try to attract the market ′s trust by increasing the disclosure level suggesting that it is short-term and try to prevent too much decrease in the corporate stocks. Results of most studies on the effect of firm size and age on the disclosure level were similar showing a significant and positive correlation of them. As observed and despite expectations, no such a relationship was found in Iran (Ahmed and Nicholls, 1994; Wallace and Naser, 1995). Results of this study showed the contrary to this finding. The question is why large and older firms tend less to voluntarily disclose the information rather than younger firms? This can be the subject of further studies the results of which are expected to be useful in taking Tehran Stock Exchange towards a desirable level of efficiency.

Results of this study disagree with the findings of previous studies on the information disclosure in other countries. As an illustration, Hossain and Hammami (2009) who examined disclosure level in the firms of Qatar Stock Exchange found profitability and the number of corporate subsets to be positively and significantly correlated with the disclosure level.

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1	Summary of firm history
2	Organizational chart and structure
3	Describing totality of business unit activity
4	Establishment date
5	Registered address
6	Firm ′ s email
7	Managerial strategies and goals
8	Future corporate strategy Information on the capital cost
9	Details on the CEO head
10	Details on the CEO
11	Number of held stocks by managers
12	List of senior managers/structure of senior management
13	Interaction of managers/managers of other firms
14	Pictures of all managers/CEO
15	Picture of CEO head
16	CEO combination
17	Number of CEO meetings and their dates
18	Brief discussion and analysis of financial statements
19	Return on equity
20	Margin of net earnings
21	Earnings per share
22	Ratio of debt to stockholders′ equity
23	Dividend Per Share
24	Description Of Management Risk Discussion of Framework and totality of management risk
25	Discussion on the asset risk, risk measurement, and monitoring
26	Information of risk management committee
27	Information about assets and debts committee
28	Information about risk management and report system
29	Credit rating system disclosure/process
30	General description of the risk of market sections
31	disclosure of Interest rate ′s risk
32	Description of accounting procedures
33	Disclosing used standards for the accounts
34	Supporting general hygiene and recreational projects
35	Information about financial support to charity
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37	Age of key employees
38	Report of CEO head and managers
39	Information about ISOs
40	Graphic representation of performance indices
41	Performance in a 3-yesr perspective
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Appendix 1. Assessment of voluntary disclosure items