

A Proposed Model: Factors Affecting the Disclosure Practices of Listed Companies in ASEAN

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Abstract: Over the last few decades, the research frontier related to corporate disclosure has developed considerably. It has now become quite a significant aspect for businesses in a globalizing world. Many worldwide scholars have continuously developed conceptual models to enlighten the understanding of the diverse practices in various areas. However, recent studies mainly focused on the relationships among firm characteristics, corporate governance, and disclosure practices; and often neglected the importance of national convergences. Moreover, the majority of researches elucidate case studies which concentrate only on a specific developed country. This paper proposes a novel conceptual model that enables an investigation on the effects of three different parameters: national characteristics, firm characteristics, and corporate governance on disclosure behaviors across countries. To achieve this goal, an extensive review of the relevant literature is applied as a research methodology while the member countries of the Association of Southeast Asia Nations (ASEAN) are chosen as a case study. This is mainly due to their categorical divergence and characteristic transition in creating a regional community. Following the process of literature review, numerous variables such as legal origin, national culture, ownership structure, listing status, board size, gender diversity on boards, and so forth are formalized. But, due to research limitations, only popular and attractive attributes have been included in the proposed model. The findings may not only be beneficial to the regulators who want to enforce businesses to deliver greater information but also the managers who require an improved financial support from investors. Further research might be required to examine the impacts of these selected factors on information disclosure of listed companies in ASEAN.

Keywords: *Disclosure Practices, ASEAN, Listed Companies, Corporate Governance, National Characteristics, Firm Characteristics.*

Introduction

Prior Literature

Over the last few decades, the research frontier related to corporate disclosure has developed considerably. Many worldwide scholars have continuously developed conceptual models based on several contexts to enlighten understanding of the diverse practices in various areas.

For example, according to Ahmed (1996), the extent of corporate annual reports of companies in Bangladesh was closely related to multinational companies and large audit firms but indicates no relationship with qualifications of the Principal Accounting Officer of the Company (PAO), company size and the total amount of debt. Conversely, with the findings of Ahmed and Courts (1999), this paper concluded that based on a meta-analysis of 29 case studies, the findings have indicated that disclosure levels are positively affected by company size, listing status, and

leverage, but not involved with profitability and audit firm size. Supported by the practices of the firms in UAE (Aljifri *et al.*, 2014), show that listing status, industry type, and size of firm are significantly associated with the level of disclosure. Additionally, based on a study of Khalid Alsaeed (2006), it also indicated that firm size and the level of the disclosure are also significantly associated with each. Furthermore, according to a study of Chau and Gray (2002) on ownership structure and corporate voluntary disclosure in the Asian settings of Hong Kong and Singapore, the finding shows that the firms which possess more outsider ownerships tend to voluntarily disclose corporate information, resulting in higher level of disclosure compared with family-controlled companies. Together with a study conducted in France, the results showed that the extent of disclosure is strongly associated with provision intensity, size, leverage and market expectation, but not profit, return, and industry (Chavent *et al.*, 2006).

As argued above, it is clear that recent literature has focused on a specific area which is mostly in a developed country whereas some have conducted comparative studies by comparing the countries of similar characteristics or the contrast between developed and developing countries. However, only a few have taken research on a cross-section of countries. Additionally, only the factors related to firm characteristics and corporate governance have been widely included in an exploration, but the factors related to national characteristics are still limited and often ignored by researchers.

Problem Statement

After the Asia financial crisis of 1997-1998, or sometimes called as “Tom Yam Kung” crisis, the topics related to good governance and transparency have been truly raised as a priority for businesses in ASEAN. Lately, corporate disclosure has also been considered to be a matter of great concern since it can help to eliminate deteriorated practices that are commonly found in the workplace; reduce problems of information asymmetry; strengthen the level of accountability; enhance business performance, and promote sustainable development (Omran and Abdelrazik, 2013; Madhani, 2014; Ghani and Tarmezi, 2016). Following these benefits, it is unsurprising that it is integrated as a core part of business activity. However, due to pressure at both international and local levels, the existing instruments are not effective enough to enforce private enterprises to publicize their information, either financial or non-financial, in response to today’s requirements. As a result of this, substantial rules as well as regulations have been intensively reviewed to increase the efficiency of enforcement whereas various new mechanisms are continuously designed to fulfill the needs of the stakeholders.

Regarding the increasing efforts to improve internal control systems, the recent trend towards accountability of ASEAN is a good progression. A litany of evidence strongly indicates that the businesses are now actively offering more accurate and reliable information to stakeholders. (Ghani and Tarmezi, 2016) However, along with this success, a number of problems related to the directions of development still exist as to the specifics since they are of quite diverse backgrounds and often lack good cooperation between member nations. Prior studies have they vividly pointed out that the disclosure practices of ASEAN are distinct from country to country, and indeed business to business (Craig and Diga, 1998).

For example, in many countries, regulators, especially extreme cases like Thailand or Malaysia, have the intention to create a strong disclosure regime that enables businesses to be more responsive to their stakeholders and attractive for foreign investments. As a result of this, numerous documents including international guidelines, best-practices of developed countries, national regulatory systems, and internal requirements are harmonized to ensure that the revised

policies will cover significant information for investors to consider and be applicable, whether in the country, region, or global market. Yet, because various instruments can be applied in policy formation processes, the disclosure principles in each country are quite unique and sometimes could be incompatible with others. Furthermore, the literature still believes that, in some countries, the disclosure rules and regulations are regulated based on their own direction and experiences. Following this procedure, only domestic demands have been concentrated while external forces seem to be ignored (Sundgren *et al.*, 2013). As a result of this, the new setting policies may be separated from the international standard and they can only be implemented effectively within the respective country. According to the aforementioned argument, it is generally proven that with a different focus area of policy settings in ASEAN, national disclosure strategies typically differ from each other and they would be a big problem to set a new disclosure standard of the region, inevitably.

Following the differences in national schemes, it is obviously that efficiency and effectiveness of disclosure policies in ASEAN are unequal. National rules and regulations are normally employed as a basic framework to form a company policy, thereby causing a direct transfer to corporate behaviours as well (Madhani, 2014). In regard to this fact, it can clearly explain that business in ASEAN often offers dissimilar information to the public. For instance, in terms of a national institution and framework of law, it is observed that the countries with civil law systems where a policy is in a written form seem to have more stringent rules than nations with the common law system. Consequently, businesses from civil law countries are inclined to follow the regulations and willingly reveal accurate information. However, there are many other aspects that make disclosure principles of a company in ASEAN mutually deviate in nature and action. For example, a business that is looking for long-term investments particularly from foreign investors, tends to voluntarily reveal additional information, exceeding from minimum mandatory requirements (Chavent *et al.*, 2006; Ghani and Tarmezi, 2016); a transparent business is often more open than one which seems to have a hidden agenda (Madhani, 2014); a business which belongs to a family or closely connects with a group of politicians tends to disclose less information (Wallace and Naser, 1995; Ahmed, 1996; Chau and Gray, 2002; Grüning, 2007); a listed or substantially large company frequently declares corporate information to public (Jaggi and Low, 2000; Archambault and Archambault, 2003); and so on. In regards to internal provisions, it can conclude that the disclosure patterns of businesses in ASEAN, although within the same county, are scattered depending on a wide variety of circumstances (Hope, 2003). By proceeding in this manner, it is necessary to understand what factors can donate to diversity disclosure practices.

Motivation

As presented through the aforementioned arguments, it is recommended that the extent of corporate disclosure practices have been shaped based on numerous factors, including a national convergence which is typically interrelated to business practices. Consequently, the differentiations of state appearances and perspectives cannot be overlooked on the order to success in setting regional disclosure standards and developing effective policies.

However, from a brief overview of the previous studies, it is apparent that most literature mainly focused on the relationship between firm characteristics, corporate governance, and disclosure practices. Only a few studies have included variables related to national convergence. Furthermore, since the majority of research was conducted based on a specific developed

country, the studies on corporate disclosure practices in developing nations are still limited and literature is quite sparse in terms of cross-country analysis.

This paper aims to propose a novel conceptual model that enables an investigation of the effects of three different parameters: national characteristics, firm characteristics, and corporate governance on disclosure behaviors across countries. An extensive review of the relevant literature is performed. To improve our existing understanding, ASEAN is chosen as a case study because it is a group of developing countries in which its members are diverged in many perspectives including; legal origin, level of development, national culture, technology advancement, among others. Additionally, regarding a commitment of member ASEAN countries to upgrade the level of collaborations, such contradictions in appearances, either national security or business strategy, would be a huge obstacle during regional standard setting processes which may be even more aggressive after the ASEAN Economic Community (AEC) has been officially activated at the end of 2015. To reduce a jumble of different styles, it is, therefore, necessary to understand what are the factors that contribute to corporate disclosure behaviors of listed companies in ASEAN and the reasons for corporations to exhibit actions to disclose or not disclose corporate information. For these reasons, the member countries of ASEAN can be a good sample for this research.

The implications of this paper are twofold. First, the findings may be beneficial to the regulators who want to enforce businesses to deliver greater information, intensify the competency of national regulations, and participate in a regional standard setting. Secondly, the results may offer advantages to a manager who is looking for greater financial support from investors; a company facing information asymmetry issues, and a business which needs to increase the performance of internal control systems.

The remainder of the paper is organized as follows: Section 2 describes a research methodology used in this paper. Section 3 provides an extensive review of the literature on corporate disclosure practices and influencing factors. Then, a model is proposed in section 4. Finally, conclusions together with research limitations and recommendations for further research are presented in section 5.

Methodology

This paper employs a systematic literature review approach to classify and summarise the previous studies on corporate disclosure. The procedures for conducting a literature review are as follow:

Search Strategy

Today, there are many resources including academic books as well as information in peer-reviewed journals that provide an empirical and theoretical base for the research. In addition, the empirical studies from relevant literatures also could be clarified as an efficient investigation which leads readers to understand the concept of corporate disclosure. However, among a substantial amount of literature, only relevant ones should be considered to get knowledge and clear understanding in corporate disclosure. To collect the secondary data, theoretical validity which refers to adequacy of theory used for explanation is of greatest concern. So, many keywords such as “Corporate Disclosure”, “Disclosure Practices”, “Mandatory Disclosure”, “Voluntary Disclosure”, “National Characteristics and Disclosure”, “Firm Characteristics and Disclosure”, “Corporate Governance and Disclosure” are used to match the relevant data sources from the reliable databases like the Emerald, IEEE Xplorer, Springer, ProQuest and Google

scholar. All of the selected literatures used for studying are mainly to find the common factors and effects that are significantly associated to corporate disclosure practices.

Review Strategy

To get many ideas of influencing factors and their relative roles on disclosure practices, each literature was reviewed critically by accessing the truthfulness of the premises and the logical strength of the conclusion. Then, the findings are grouped and evaluated to categorize the conceptual framework for further analysis.

Literature Review

Theoretically, the term “Corporate Disclosure” refers to a communication activity that managers use to connect with stakeholders (Kavitha and Nandagopal, 2011; Trang and Phuong, 2015). It can be broadly sub-divided into two dimensions: mandatory and voluntary. In terms of mandatory disclosure, it is often related to national rules and regulations which are set to determine minimum practices that every company must comply with, otherwise be immediately penalized by a regulatory authority. On the other hand, voluntary disclosure normally implies that supplementary actions (above the mandatory requirements that a company can choose to apply or not apply based on its current situation and future challenge) (Barako *et al.*, 2006; Hassam *et al.*, 2009; Kavitha and Nandagopal, 2011). However, with respect to the complexity of corporate disclosure, several studies have been conducted to identify relationships as well as interactions of influencing factors and corporate disclosure practices in many aspects and areas. The results of which have mentioned that there are multiple determinants involved in the decision to divulge or conceal corporate information, specifically if it is highly sensitive and confidential for internal users. (Owusu-Ansah, 1998; Archambault and Archambault, 2003; Barako *et al.*, 2006; Qu and Leung, 2006; Galani *et al.*, 2011; Kavitha and Nandagopal, 2011)

Factors related to national characteristics

Regarding a study on Firm-level disclosures and the relative roles of culture and legal origin (Hope, 2003), the findings indicate that both national culture and legal origin can be reflected in firm disclosure levels. This result has been confirmed by Jaggi and Low (2000) which shows that the difference in the legal system has direct effects on the level financial disclosure. Through the comparison study between the two regimes, the outcomes further elucidate that the financial disclosure level of the firms from common law countries is greater. However, based on an investigation of the impact of cultural values on corporate disclosure, Jaggi, and Low (2000) found that there is no significant relationship with the firms from common law countries while there is a mixed signal regarding firms from civil law countries. Additionally, from the cross-country study of Sundgren and Somoza-lopez (2013), they also found that the disclosure level of companies from Scandinavia and Germany is higher than companies of French and English origin and the quality of disclosure is positively associated with enforcement quality if it is measured by the “Rule of Law” index (Kaufmann *et al.*, 2010) but possess a negative correlation in regard to secrecy versus transparency (Gray, 1988). Likewise the study of Jeffrey J. Archambault and Marie E. Archambault (2003) on a multinational test of determinants of corporate disclosure, the results show that the influences of culture; national political and economic systems; and corporate financial and operating systems are extremely consistent with reporting disclosure decisions and the level of corporate financial disclosure.

Factors related to firm characteristic

A number of studies have examined the relationship between firm characteristics and corporate governance. Most of the research has been conducted in regard to a specific country, with little focus on cross-country studies. Through the empirical disclosure literature, there are fourteen factors that are normally observed. These include company size, assets-in-place, industry type, listing age, complexity of business, level of diversification, multiple listing status, foreign activity, gearing, top ten shareholders, ownership structure, institutional investors, profitability, type of auditor, and leverage (Ahmed, 1996; Ahmed and Courtis, 1999; Alsaeed, 2006; Archambault and Archambault, 2003; Chau and Gray, 2002; Chavent *et al.*, 2006; Ebrahimabadi and Asadi, 2016; Galani *et al.*, 2011; Grüning, 2007; Hossain and Reaz, 2007; Owusu-Ansah, 1998; Soliman, 2013; Sweiti and Attayah, 2013; Wallace and Naser, 1995).

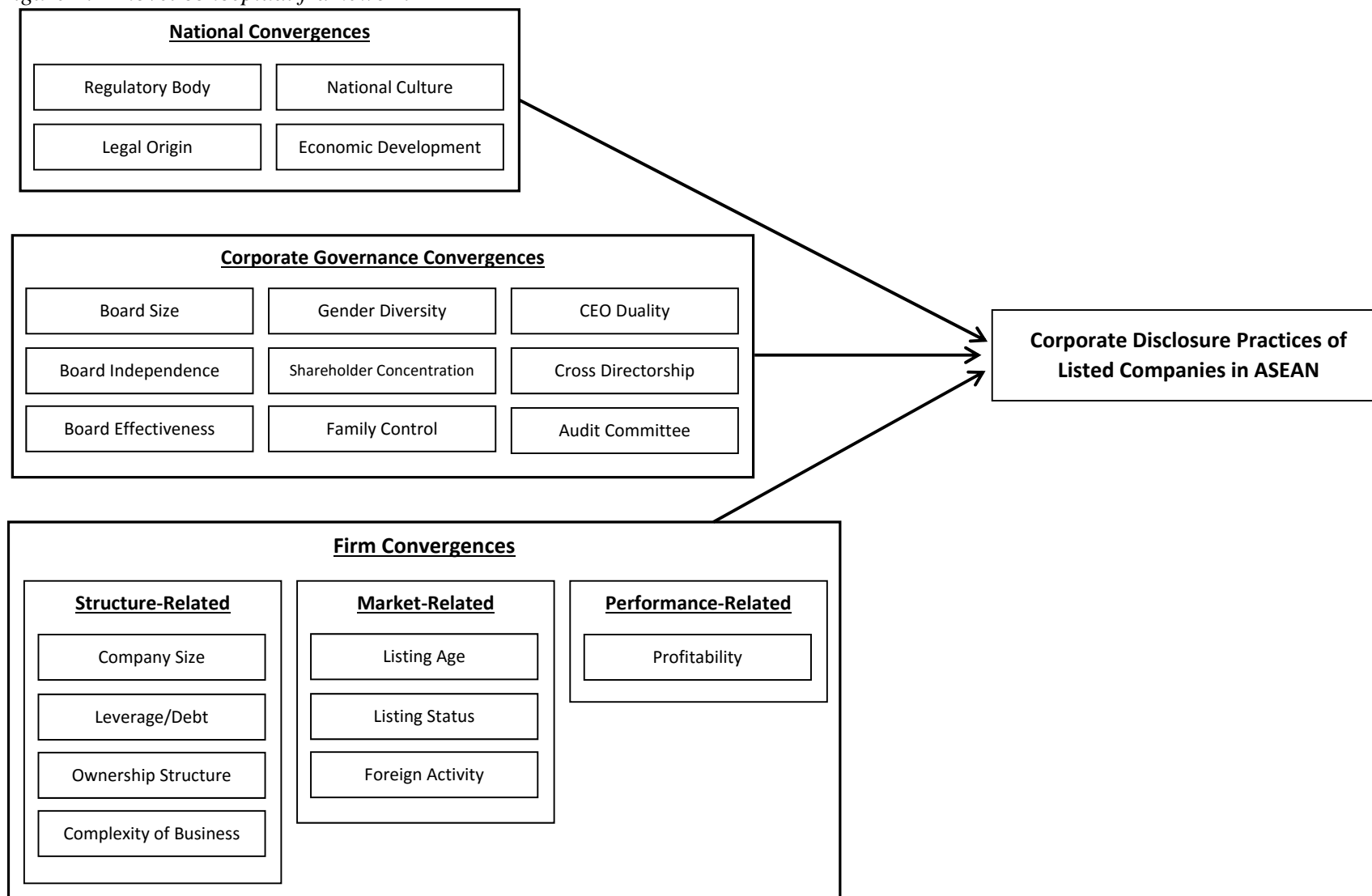
Factors related to corporate governance

According to a synthesis and analysis of the relevant published work, there are ten factors that are often used to examine the influences of corporate governance on disclosure practices. They consist of board size, board independence, audit committee, gender diversity, family control, CEO duality, shareholder concentration, activeness of the committee, and cross-directorships (Barako *et al.*, 2006; Barros *et al.*, 2013; Bujaki and McConomy, 2002; Cheng and Courtenay, 2006; Eng and Mak, 2003; García-Meca and Sánchez-Ballesta, 2010; Haniffa and Cooke, 2000; Madhani, 2014; Omran and Abdelrazik, 2013; Qu and Leung, 2006).

A Proposed Model

From reviewing the relevant literature, several factors have been discovered. However, due to inherent research limitations, only a few have been selected and included in the proposed model. In this part, the selected factors that may explain diversity disclosure practices of listed companies in ASEAN are captured and proposed as a novel conceptual framework. The result is presented in the figure below:

Figure 1: A novel conceptual framework



(Source: own work based on theoretical considerations)

Conclusions, Limitations, and Recommendations

The purpose of this research has been to propose a novel model that explores corporate disclosure practices of enlisted ASEAN companies and the factors contributing to such practices. Based on an extensive literature review, several factors that contribute to a decision to disclose or not disclose corporate information have been identified. However, due to intrinsic research limitations, only selected elements are included in our proposed novel conceptual framework. They are classified into three broad parameters: national characteristics, firm characteristics, and corporate governance attributes. Firstly, four factors related to national characteristics which are a regulatory body, legal origin, national culture, and economic development, are chosen and included in our proposed model. Secondly, eight elements related to firm characteristics are investigated and ordered into three sub-categories: first, a group of structure-related variables contains three sub entities of company size, leverage or debt, ownership structure, and complexity of business; Secondly, the group of market-related factors consists of three aspects which include listing age, listing status, and foreign activity; and finally, the group of performance-related variables contains the single factor of profitability. Thirdly, the nine determinants related to corporate governance include; board size, board independence, board effectiveness, gender diversity, shareholder concentration, family control, CEO duality, cross-directorship, and audit committee have been added in our model. Further research might be required to examine the impacts of these selected factors on information disclosure of ASEAN enlisted companies and the extent of finding factors in other types of companies in ASEAN as well as other countries.

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