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Firm Characteristics and the Extend of Voluntary Disclosure: The Case of Indian Tourist Companies

Mohd Tariq Azizy,
Research Scholar,
Department of Commerce & Business Studies, Jamia Millia Islamia,
New Delhi, India.

Prof. A. A. Ansari,
Department of Commerce & Business Studies, Jamia Millia Islamia,
New Delhi, India.

ABSTRACT

In a society depending on real time information, corporate disclosure is crucial for the capital market efficiency. A healthy disclosure practice ensures the transparency in the information availability to the investors which results in increasing firm credibility in the market. The purpose of this study is to investigate the association between the voluntary disclosure level in annual reports and firm characteristics by taking a sample of 35 tourist companies listed on the Bombay Stock Exchange and National Stock Exchange for the period 31 March 2017 to 31 March 2018. Size of the firm, leverage, profitability, number of non- executive directors and firm's age are the indicators which has been used to represent the firm's characteristics. A multiple regression has been performed after developing a disclosure checklist consisting of 65 voluntary items of information. Our study showed there is no significant association between firm size and the voluntary disclosure level in annual reports. However leverage number of non-executive directors and firm's age has shown a significant positive association with voluntary disclosure level.

Keywords: Firm Characteristics; Annual reports; Voluntary Disclosure.

INTRODUCTION:

Voluntary disclosure through annual reports and other information media has been major research areas over the years. Corporation's disclosure has huge influence on the potential investor's decision making, as the information of the company impact the decisions of different stakeholders (Soliman Moustafa, 2013). Investors use the information disclosed by the companies in making their investment decision to a large extent. Disclosure practices increase transparency in the information availability which reduces the information asymmetry. From the business ethics perspective all the firms should disclose the accounting information in a true and fair manner. Many countries have made some regulation regarding the disclosure practices by the companies. In India the Indian Accounting Standard one has issued guidelines to be followed by Indian companies regarding their disclosure practices. In addition SEBI has also issued some guidelines regarding the same in order to protect the interest of the Stakeholders. Apart from mandatory disclosure there are some provisions for the voluntary disclosures too.

Analytics Research comprised theories such as agency theory, signalling theory and competition theory studied the company specific factors determining the extend of disclosure (Cerf,A.R, 1961). Agency theory explains the agency cost occurring due to conflict of interest and information symmetry between owners and managers. Therefore, managers are required to disclose more information to reduce agency cost (Hossain et al., 1995). Signalling theory suggest that managers should disclose more information to reduce information symmetry between themselves and investors as it will help in increasing the confidence of investors(Hossaian & Hammani 2009). Stakeholder theory advocate that managers should disclose more information to the stakeholder to gain their support as stakeholder have interest in the firm's activities (Smith, Adhikari & Tondkar, 2005).

Therefore, this article investigates the disclosure practices of Indian companies in the tourism sector and analyzes the level of quality information disclosed by these companies. In addition, examines those characteristics of the firms which have an influence on the level of information disclosed by the firms. The findings of our study are expected to be helpful in making decision by the regulatory bodies, stakeholders and the potential investors.

The motivation of this study is to understand the disclosure practices in the tourism sector. Literature shows a very few studies have been conducted in this are especially in the context of developing country such as India. Through this study we have tried to fill this gap**.**

The paper proceeds as follow: Section 2 reviews some of the previous research works on the accounting disclosure practices. Section 3 formulates a set of hypothesis to test the influence of firm characteristics on the disclosure score of the firm. Section 4 described the methodology used in the study. Section 5 analyzes the empirical results of the study. Finally, section 6 concludes the paper.

LITERATURE REVIEW

Many researchers cite the work of Cerf (1961) as the studies regarding disclosure level in annual reports of companies started after his work. Since the academicians from both developing and developed nations has attracted great attention. However, in prior studies, the number of variables and the number of items in the disclosure list were lesser than those of current studies.

Galani, Alexandridis and stavropoulus (2011) assess the level of disclosure in the annual reports of non financial geek firms and the firm characteristics which impact the extend of mandatory disclosure of the firms using multivariate regression model. The study concluded that the firms adequately complete the mandatory disclosure requirement of the regulatory bodies. The variables such as profitability, liquidity, age and board composition were not significantly influencing the level of disclosure in the firms. On the other hand, size was significant positively impacted the level of disclosure.

Celeine Michailesco (2010) analysed the determinants of the quality of disclosure of the in the annual reports of 100 French listed companies using univariate and multivariate regression analysis. The quality of information was measured by preparing an index based on the expectation and opinions of the financial analysts requiring the information disclosed today. The result indicated that the variable such as domestic and multiple listing status have significant influence on the disclosure quality over the period 1991-1995. Ownership diffusion has no significant role on the quality of information disclosed and leverage significantly influenced only in the period 1995. Also, since 1993, the influence of these variables is increasing, indicating a better transparency in reporting practices in French companies.

Inchausti (2010) empirical analysed the influence of market and regulatory bodies on the information disclosure on Spanish firms by investigating the annual reports of 49 companies for 3 years. The information disclosed is measured through an information index, using 50 items to represent the level of information by the firms. The author has used multiple regression models to measure the influence of the market variables and a panel data analysis including time effects to analyze the influence of regulation. The result concluded that the regulation pressure influence mandatory disclosure only. The firm's characteristics such as size, auditing and stock exchange influenced the level of disclosure.

Alfizri, Alzarouni,Ng and Tahir (2014) analyzed the impact of firm character tics on the corporate financial disclosure in 153 UAE companies. Multiple regression analysis was used to examine the relationship amongst the variables by establishing eight hypotheses. The result showed that listing status, industry type and size of firm are significantly impacted the corporate information disclosure.

Shehta, Dahawy and Ismail (2014) identified level of companies disclosure of 39 listed companies for the 2007 after implementation of Egyptian Accounting Standards and examined the relationship between firm characteristics and disclosure level. The findings revealed that the firm's characteristics had positive significant relationship with the disclosure level. The maximum disclosure by the firms was 83%.

Scaltrito (2015) analysed the different methodologies to assess the levels of disclosure by the firms. In the first category, it includes subjective tools which don't rely on the analysis of the original source of the information. The other category included tool which is based on the direct study of the original information source. These tools are modulated according to the research questions; a researcher is seeking to undertake studies.

Pivac, Tina and Cular(2017) compared the level of annual reporting in selected European countries by conducting comparative analysis of annual reporting disclosure and multi criteria PROMETHEE method. The result of the study concluded that Slovenian countries had the greatest level of quality information disclosure. On the basis of Kruskal- Wallis test, it was found that there is significant difference in the quality disclosure in

transition countries. The author said in order to increase capital market efficiency, more focus should be placed on improving the disclosure quality of the annual reports.
Takhtaei, Mousavi (2012) explored the relationship between firm characteristics and level of information disclosure using annual reports of 80 Iranian listed firms during 2006-2009. A linear regression analysis was applied to determine this relationship. Firm characteristics such as current ratio and P/B ratio had significant positive relationship with disclosure quality. On the other hand, firm size had significant negative relationship with disclosure quality.
Moustafa Soliman (2013) analysed the association between firm characteristics and disclosure quality of 50 Egyptian companies of the non financial sector during 2007-10. The analysis is performed using univariate and multiple regression models. The disclosure index is prepared using 60 items of information. The results indicated that profitability and firm size have positive significant relationship with disclosure quality while auditor size and firm's age did not had significant relationship with disclosure score.

HYPOTHESES:

Size:
A number of studies in the past have indicated positive relationship between size of the firm and and their voluntary disclosure. The large firms have wide range of the users requiring the company information than the smaller firms. Due to high agency cost associated with the larger firms, these firms needs to disclose more information.
H1: Companies with varied size disclose different amount of the information.

Profitability:
There is general perception that firms with higher profits disclose more information. It may be because managers in high profit earning firms want to increase investor's confidence. Additionally, in might justify their compensatory packages. Return on asset is used as an independent variable for measuring the profitability of the firm.
H2: Firms with higher profits disclose more information than firms with lower profits.

Use of external financing:
The firms with higher leverage are considered to be disclosing more information,to increase the creditor's confidence and reduces the debt agency cost. However some previous studies show the contradictory in the results. For example Raffournier (1995),Zhou (1997) found a negative relation between leverage and voluntary disclosure.
H3: Firms with higher leverage disclose more information than firms with lower leverage.

Board structure:
The number of non-executive directors in the board composition can influence the decision making of the firm as non executive director is member of the board without responsibilities for the management of the organization. Non executive director's works in the interest of the company stakeholders. Therefore as the number of the directors increases, the disclosure of the company might increases.
H4: Firms with higher no. of non-executive directors discloses more information.

Age:
The reason for selecting this variable is that firms with more age could be disclosing more information as they might have improved their financial reporting over the period of time. Also to enhance their reputation in the market, firms might disclose more information to the investors.
H5: Firms with higher age disclose more information than firm with lower age.

METHODOLOGY:

Measuring Disclosure score:
An index was created using 65 items of information to measure the disclosure quality of the firms. These items were selected on the basis of the previous studies which have been conducted on the discloser quality. To calculate the score of the firms in disclosing information, a dichotomous approach is used. Where if item is disclosed a score is given otherwise zero score is given. This approach is termed as unweighted, as it gives equal weightage to all the items measuring disclosing score and reduces the biasness arising from the weightage method. This method measures the disclosure score of the company as follows:
di= 1 if item i is disclosed

=0 if item i is not disclosed
N= number of items

Model development:
The multiple linear regression model is adopted to Determine the specific relationship between dependent variable i.e. level of disclosure and independent variables.
DS= bo+b1SIZE+b2AGE+b3PROF + b4LEV+b5 NON EXECUTIVE+ e
Where
DS: disclosure score
bo: Intercept
SIZE: Log of Total Assets
AGE: actual number of years in business
PROF: return on total asset
LEV: debt equity ratio
NON: no of non-executive directors in the board composition.
e: residual error
To assess the effect of leverage on disclose score, debt equity ratio is used as independent variable. Size of the firm is measured taking log of the total assets of the firm for the year 2017.

Sample:
The analysis included 35 firms of the tourism industry for the year 2017. All the companies taken in the study are listed companies. The annual report data is taken from money control.com.

OBJECTIVE OF THE STUDY:

1. To ascertain if size of the company impact the level of disclosing accounting information by the company?
2. To examine if Profitability of the company impact the level of disclosing accounting information by the company?
3. To investigate if use of external borrowing by the company impact the level of disclosing accounting information by the company?
4. To analyze if proportion of non executive directors in the board composition of the company impact the level of disclosing accounting information by the company?
5. To determine if age of the company impact the level of disclosing accounting information by the company?

EMPIRICAL RESULTS:

Descriptive statistics:

Table 1

	Score	Leverage	Listing_Age	Profitability	Lsize	Non_Executive _Directors
Mean	68.7033	3.520943	40.64286	-0.629429	6.726173	1.6
Median	69.23077	0.32	34	2.21	6.840504	1
Maximum	92.30769	93.3	173	21.29	13.195	7
Minimum	43.07692	-23.47	11	-160.42	2.164472	0
Std. Dev.	15.09198	16.77966	32.02379	28.50073	2.403165	1.973352
Skewness	-0.118137	4.504123	2.510034	-5.220228	0.209	1.03731
Kurtosis	1.786659	25.09828	10.08862	29.93958	3.182025	2.981713
Jarque-Bera	2.228365	830.495	110.0308	1217.335	0.303125	6.277221
Probability	0.328184	0	0	0	0.859364	0.043343
Sum	2404.615	123.233	1422.5	-22.03	235.4161	56
Sum Sq. Dev.	7744.108	9572.943	34867.79	27617.91	196.3569	132.4
Observations	35	35	35	35	35	35

Table 1 presents descriptive statistics of the variable used in the study. Disclosure score which is dependent variable has mean of 68.7033 and median of 69.23077. Listing age has highest standard deviation followed by profitability which represents wide range of variation within the sample. All the variables were positively skewed except the disclosure score and profitability.

Correlation:

Table 2

Column1	Score	Leverage	Size	Non_Executive _Directors	Profitability	Listing_Age
Score	1	0.233	0.294	0.062597	0.2932	0.3858
Leverage	0.2333	1	-0.039	0.001259	-0.01	-0.062
Size	0.294	-0.04	1	-0.14274	0.0046	0.7403
Non_Executive_Directors	0.0626	0.001	-0.143	1	-0.208	0.0268
Profitability	0.2932	-0.01	0.0046	-0.20761	1	-0.046
Listing_Age	0.3858	-0.06	0.7403	0.026762	-0.046	1

The results of the correlation which shows the association amongst the variable is presented in the table 2. The disclosure score has the positive correlation with all the variables which is consistent with most of the previous studies. Leverage has negative correlation with every variable except size and profitability. Profitability has also negative correlation with leverage, non executive directors and listing age.

Regression Results:

Table 3

Column1	Column2	Column3	Column4	Column5
Date: 03/28/19 Time: 22:49				
Sample: 1 35				
Included observations: 35				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	43.88222	5.979402	7.338897	0
LEVERAGE	0.190784	0.11988	1.591464	0.1223
LISTING_AGE	0.080576	0.072674	1.108728	0.2767
LSIZE	3.019298	0.978564	3.085436	0.0044
NON_EXECUTIVE_DIRECTORS	0.417416	1.045729	0.399163	0.6927
PROFITABILITY	0.161535	0.071791	2.250068	0.0322
R-squared	0.494511	Mean dependent var		68.7033
Adjusted R-squared	0.407357	S.D. dependent var		15.09198
S.E. of regression	11.6183	Akaike info criterion		7.897846
Sum squared resid	3914.565	Schwarz criterion		8.164477
Log likelihood	-132.2123	Hannan-Quinn criter.		7.989887
F-statistic	5.674029	Durbin-Watson stat		1.795664
Prob (F-statistic)	0.000911			

The results of the multiple regression analysis depicting the relationship between company charactertics and its level of information disclosure is presented in the table 3.The p value of F-ratio is 0.000911 supports the significance of the model. The r value is 0.494511 which explains the variation caused by the independent variables in the level of disclosing accounting information.

Leverage: The leverage variable coefficient is significantly positively related to the disclosure score indicating that the more firm uses external borrowing the more firm discloses the information.

Listing age: The listing age variable Coefficient causes significantly positive variation in the disclosure quality of the firm. The older the firm, the higher level of information disclosed.

Size: The size coefficient is not significantly positively related to the disclosure score there by suggesting large firms disclose less information than the smaller firms.

Non-Executive directors: The non- executive directors coefficient is significantly positively related to the level of disclosure of the information suggesting if no of non-executive directors is increased in the board composition it will increase the level of information disclosed .

Profitability: The profitability coefficient does not provide an explanation of the level of the information disclosed.

CONCLUSION:

This study analysed the level of information disclosed by the firms in tourism sectors for the year 2017. An Unweighted disclosure index was used, complied of 65 items to measure the information disclosure of 35 companies. Furthermore, company's characteristics were regressed on the disclosure score to determine the impact of these attributes on disclosure score. The findings of the study shows that number of non executive directors, age of the firm, proportion of external financing have positively significant influence on the disclosure score. The Firm size is not significantly associated with disclosure score of the firm. Also the profitability of the firm does not provide significant explanation to the variation in the disclosure score. It could be because profitability related variable act as a yardstick for the information asymmetry between management and shareholders. This study recommends the tourism companies to enhance the quality of information, as it will increase the investors' confidence and values of shares of their companies. The study has some important implication for the regulatory bodies in India. These bodies should ensure the transparency in the disclosure practices by the firms in order to improve the quality of the information. It can be done by making the disclosure practices mandatory by the firm. We have used only 35 samples also the time period is only one year which impose a limitation on our study. In order to understand the nature of overall disclosure, a larger time period would be better to analyze the impact of the firm attributes. This study is conducted only on 35 tourism companies; a higher number of companies would have been more apt for the analysis. Also, annual reports were the only source of the data; other sources like press release, news would have provided more information about the companies.

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