On Dimensions in Corporate Disclosure Studies

Journal:	*Accounting Research Journal*
Manuscript ID	ARJ-02-2018-0034
Manuscript Type:	Editorial

GUEST EDITORIAL

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1. Introduction

The call for papers for the special issue on the dimensions in corporate disclosure aimed to extend corporate disclosure discourse with research on a wide spectrum of ideas from conceptual to empirical studies without limits on research methodologies. The response to the call reflects the extent of current academic work undertaken to challenge existing thinking on corporate disclosures. The papers in the issue explored differing theoretical underpinnings, from media agenda setting (Li, Haque and Chapple, 2018) to signalling hypothesis (Wasiuzzaman, Lye, Sundarasen and Othman, 2018) and stakeholder salience (Hu, Zhu, Tucker and Hu, 2018). The studies are also multidisciplinary and covered both developed and developing economies. The literature on corporate disclosure is quite advanced and important insights have been developed for over the three decades of disclosure studies (Healy and Palepu, 2001; Adelopo, 2011; Wang and Hussainey, 2013; Mangena et al., 2016). Agency theoretical frame remains dominant and findings are becoming increasingly standard. However, there are opportunities for wider perspectives and new insights from using other theoretical lenses.

Previous studies argue that firms make voluntary disclosures to assuage negative public opinion (O'Donovan 1999; Healy and Palepu 2001) and suggest that disclosure reduces information asymmetry and cost of capital due to important voluntary disclosure (Mangena et al., 2016). Earlier, Suchman (1995) argues that corporations maintain good and clear communications to avoid societal sanctions. This implies that firms' failure to address societal expectations in their communications could lead to adverse consequences (Brown and Deegan, 1998; Islam and Deegan, 2010; Yekini et al., 2015).

There is also extensive literature on the interactions between the corporation and its external environments and the need to achieve congruence between them, including the roles of effective communication in finding a fit between corporate action and corporate social approval (Brown and Deegan, 1998; Islam and Deegan, 2010; Suchman, 1995; Deegan and Gordon, 1996). Thus, corporate communication is indispensable in an increasingly complex corporate environment where performance is no longer hinged only on economic models because organisational goals, social and political considerations are now intertwined (Adelopo et al., 2015). The growing role of ethics, acceptable corporate culture and accountability are also increasingly articulated in emerging literature (Adelopo et al., 2015; Yekini et al., 2015; Tauringana and Chithambo, 2015; Gordon, 2008). Closely related to these is the need for corporations to identify their community of operations (Suchman, 1995; Yekini et al., 2015) and be able to engage with them in a commensurate and acceptable language and through avenues that are consistent to the changing objectives of firms' conferring publics (Deegan et al., 2002; Yekini et al., 2015). Principal amongst these is the role of the media and the 'new media' in the intervention and framing of corporate dialogue with its community of operations (Yekini et al., 2017; Gimenez, 2002). Often these issues are brushed over or assumed but rarely explored in any meaningful depth in the extant corporate disclosure studies. This call aimed to start to redress these gaps in our collective knowledge on corporate disclosure practices in organisations. Following this introduction, we present our editorial in two sections. Section 2 presents the papers in the issue in the context of the broader disclosure literature and section 3 concludes by suggesting disclosure research agenda.

2. This special issue and the disclosure literature

Despite the advanced nature of corporate disclosure research, recent developments before and following the corporate governance and the financial crises provide new opportunities for research into the nature and determinants of corporate disclosure. For example, to what extent is corporate voluntary disclosure affected by the political dispensation in a society? What is the role of the media in corporate disclosure? To what extent is media coverage aggravating societal expectations of corporations? How are firms responding to the apparent gaps between corporate behaviour and corporate community expectations arising from the events such as the financial crisis and more poignant events such as employee-related distress? What are the ways in which social interactions both within and outside the organisation impact corporate disclosure? These and many other issues are the contentions of the papers in this issue. Of increasing relevance also is the role of state ownership of enterprises (SOEs) on corporate disclosure. The dramatic changes in the Chinese market including its opening up to Western-style corporate architecture such as corporate governance mechanisms continue to bring SOEs into the mainstream of international accounting and financial debates. In this sense, an issue of concern addressed in this special issue is the impacts of SOEs on the likelihood of CSR disclosure. Equally cogent is the type of issues addressed by Chinese companies in their CSR report, and the importance of employee-related disclosures in these. Hu et al. (2018) and Li et al. (2018) are two empirical investigations in the special issue that addressed these topical debates.

Hu et al. (2018) investigate the impact of different types of ownership on the likelihood of CSR disclosure in Chinese listed firms drawing on the stakeholder salience theory (Michell et al., 1995). They found that where firms are required to disclose by Stock Exchanges, the likelihood of disclosing CSR information seems higher in SOEs than in non-SOEs. They also highlighted the impact of foreign ownership on CSR reporting. In this sense, they found that foreign ownership has a positive impact on the presence of CSR reports, though this effect seems weaker in SOEs. They noted that the absence of any statistically significant relationship between state ownership and the likelihood of CSR disclosure suggest that the political legitimacy that SOEs enjoy seems to reduce their need for CSR disclosure.

Although focused on the same context, Li et al. (2018) distinctively employed media agenda setting and legitimacy theories to explore narrative voluntary disclosures in response to employee-related issues in four Electronic Manufacturing Services (EMS) firms in China. They explored how employee-related disclosures were used by the EMS firms to manage legitimacy challenges resulting from media coverage on employee-related incidents in the industry. The study found that the EMS firms responded to the media exposure in different ways arguing that the responses depended on the levels of legitimacy challenged by the reported incidents. Their findings show that CSR disclosure in the context remained under-research and required substantial improvement especially in regard to the labour and human rights dimensions of CSR disclosures. They found that firms in the study seem to disclose for instrumental purposes, in this instance to retain and maintain their legitimacy (Suchman, 1995). Their study also highlighted the influential role of the media in shaping corporate disclosure behaviour to the extent that Newspaper reports on the employees' related incidents had the potential to affect firms' corporate legitimacy and therefore evoked corporate responses by way of corporate disclosure to challenge the narratives in the media. They found that the employee related disclosure analysed were closer to symbolic legitimation than substantive legitimation. Li et al.'s (2018) findings further highlighted the importance of corporate disclosure to the firms' external stakeholders and this is consistent with a well-established dimension of the corporate disclosure literature exploring the value relevance of corporate disclosure.

However, whilst the majority of these studies have looked at market reactions to these disclosure for established firms on an Exchange, only few have studied how risk disclosure impacts the performance of companies going public for the first time. Furthermore, very few studies have explored the bi-directional nature of the interaction between disclosure and firm performance. Two papers in this issue addressed these issues. Thus, whilst Wasiuzzaman et al. (2018) focused on value relevance of risk disclosure to Initial Public Offerings (IPO), Hussainey, Aly and El-Halaby (2018) explored the impacts of tone of disclosure on firm performance, unpacking their bi-directional interactions.

Wasiuzzaman et al. (2018) investigated how disclosure of risk factors influences the initial returns of Initial Public Offerings (IPOs). They analysed the content of risk factors disclosed in the prospectus of 96 companies in the Bursa Malaysia from years 2009 to 2013 and how these risk factors influence IPO initial returns. Extensive and quality information disclosed in the prospectus is found to lead to superior IPO pricing thus minimizing pricing error (Hanley and Hoberg, 2010). The results of the study showed a highly significant positive relationship between the overall risk disclosures and IPO initial returns. However, they found that only investment risk factors were significant whilst internal and external risk factors were inconsequential in IPO pricing and returns. They highlighted the important implications for investors, issuers and policy makers in the Malaysian market.

Although Hussainey et al. (2018) also examined value relevance of disclosure, their focus was completely different to Wasiuzzaman et al. (2018) or indeed to previous studies. Hussainey et al. (2018) explored a unique corporate disclosure in a unique context by investigating the bi-directional relationship of the 'Tone' of narrative disclosures and financial performance of Egyptian companies using a panel study approach. The authors used a sample of 105 Egyptian listed companies and found evidence suggesting that good news disclosure is positively associated with firm performance. This implies that Egyptian firms that report more good news ae morel likely to achieve higher firm performance and thus establishing the positive value relevance of the tone of disclosure in a bi-directional context.

There has been phenomenal growth in Islamic banks and finance, and consequential growth in their product and services, and these seem to be fuelling the interest in the disclosure practices in the related institutions given their ethical and religious inclinations. The issuance of the governance standard No 7 on the Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions (IFIs) by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) emphasised the importance of disclosure in this context. It is therefore pleasing to note the inclusion of Grassa, Chakroun and Hussainey (2018) in this special issue. The authors in a cross-country analysis of eleven countries from around the world investigated how corporate governance influences the products and services disclosure by Islamic banks. It is fair to note that this is a rather un-explored area of corporate disclosure for Islamic banks. The study is also the first cross-country analysis of the determinants of product and services disclosure by a large sample of Islamic banks. The author reported significant improvements in the disclosure by Islamic banks over time. They also found that corporate governance mechanism affects product and services disclosure by Islamic banks in the sample.

The last two papers in this special issue focused on financial reporting issues in the sense of the International Financial Reporting Standard and Revenue Recognition in reporting. The study by Du and Whittington (2018) carried out an experimental investigation on US companies to examine the dimensional precision in uncertainty disclosures related to revenue recognition. The study address some of the concerns of the preparers and users of financial information from the annual reports following the issuance in May 2014, by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) of a converged standard on revenue recognition (see Accounting Standards Update (ASU) No. 2014-09 and IFRS 15). The new revenue recognition standard requires managers to evaluate the nature of uncertainty and assess the magnitude and likelihood of future reversal. Du and Whittington (2018) studied the effects of uncertainty disclosure on investors' judgments. They conducted an experiment whereby they manipulated uncertainty dimension (outcome vs. probability) and (im) precision level (a point estimate vs. a range estimate) in the context of US listed companies. They found that participants were sensitive to features of uncertainty disclosure. They argued that their results imply that dimensional precision is an important component in uncertainty disclosure. Lastly, Nnadi Rubanov, and Oledinma (2018) examined the effect of IFRS on the performance of UK investment closed-end trust funds with domestic equity focus using Carhart's Four-Factor model. Nnadi et al. (2018) found that on average UK investment trusts do not generate abnormal return and their performance are not persistent. They showed that the adoption of IFRS has a decreasing impact on the excess returns generated by UK investment trust.

3. Conclusion: Disclosure research agenda

The collection of studies explored above formed the nascent building block for the emergence of a truly engaging discourse on corporate disclosure and therefore provide a strong basis to projecting the future trajectory of the likely debates to expect in this burgeoning research domain. As we noted in the introduction, some of the findings in corporate disclosure research are somehow standard. Thus, whilst researching them is not discouraged, pragmatically, researchers would be better served to look beyond these standard findings. We now provide examples of areas of research and dimensions in which future research may follow paying attention to potential doctoral students and early career researchers:

Determinants of corporate disclosure

Whilst researching the determinants of corporate voluntary disclosure is itself interesting, it is probably a saturated line of investigation. Personal and anecdotal experiences at the hands of reviewers suggest that researching the determinants of corporate disclosure is probably not a good idea at least in the standard format of most studies addressing this subject. Typically, researchers identify a disclosure issue and essentially bring together internal and external factors to determine their impacts on disclosure using standard regression models. A likely phrase from reviewers in this respect is: ‘at the end of the day it is another determinant of disclosure study’. The implication of this, of course, is that we seem to have seen it all and tired of authors doing the same thing over and again with very minimal incremental contribution to knowledge. We know so much about this that we have our primary expectations even in the context of increasing mixed results, and there are so many tenable explanations that finding a forgotten dimension in the determinants of corporate voluntary disclosure will be a tough job.

This observation is rather important in the context of potential doctoral students and early career researcher, and those managing or supporting them in identifying viable research ideas. Except of course if they were to look at a review of the literature and undertake a meta-analysis with a view to reconciling the differing and mixed findings from the existing literature and this itself must be underpinned by a very rigorous and unique perspective beyond the usual approach in the extant literature both in terms of theoretical framing and methodological innovativeness. Endeavours in researching determinants of disclosure could also be meaningful where such study seeks to genuinely challenge the orthodoxy and for example, look at the socio-cultural determinants of corporate disclosure and provide genuine insight around the external determinants of corporate disclosure. Such study would need to use multiple theoretical framing possibly from adjoining fields including sociology, anthropology, amongst others. An example could be the impact of political connectedness or corporate religiosity on corporate disclosure.

Theoretical approach

The call for wider theoretical framing for the broader accounting and finance research and especially corporate disclosure beyond agency theory is not new. Agency theory is so versatile and practical and has resulted in significant development in our collective understanding of the corporation and the forces shaping its structure and the interactions amongst many stakeholders in the corporate environment. However, it is just a side to the story of corporation there are other perspectives and these need to come through and enlivened in the emerging discourse around corporate disclosure beyond Agency theory. As a reviewer and an editor, it is definitely refreshing to be able to see the reality of the firm from different angles including from the stakeholder's perspective, legitimacy and resource dependency perspectives but these alternative perspectives are almost tangential, and their use remain largely like the exception. It is in this sense that we would strongly encourage and point to the direction of alternative theoretical consideration and re-examinations of some of the renowned finding in corporate disclosure in the context of alternative and probably multi-theoretical framework. Again, this will be most relevant for potential doctoral students and early career researchers who are probably more flexible and open to alternative perspectives than to more established researchers who have already formed their perceptions on this and who at times are at home with the known rather than trying 'new' things to challenge the orthodoxy of agency theory. We therefore encourage future research on corporate disclosure to experiment and adopt alternative theoretical underpinning is exploring corporate disclosure issues.

Disclosure avenues

By far the most popular source of data for disclosure studies is the annual report of companies. This is understandable as listed companies are required by law to provide their annual report to their shareholders and other users. However, there are other avenues through which corporations communicate with their various stakeholders and these alternatives are rarely explored in the extant disclosure literature. It will be interesting for example, to explore firms' disclosure practices in these alternative avenues including for example, conference call, corporate brochures and internet mediated sources such as the social media and amongst others. A detailed analysis of corporate disclosure practices across a variety of disclosure avenues would make a major contribution to our collective knowledge on this. This could focus on corporate response of specific issues and help us to understand whether and how corporation distinguish their communication to their various stakeholders and what consequences these could have for different corporate performance metrics.

Qualitative disclosure studies and regression analysis

Disclosure research is predominantly quantitative relying heavily on the use of regression models of varying complexity. This is fine, but it would also be useful to explore alternative paradigms to positivism. In this sense, an interpretivist and inductive research would add new dimensions to our perception of disclosure research and may just provide a new line of analytical rigour complementary of regression models. The use of configural analysis is gaining popularity in management studies and accounting and finance studies may benefit from this too.

Overall, the future looks exciting and promising indeed for disclosure research and we are very positive about the emerging dimensions and their potential contributions to our collective understanding of the nature, drivers and consequences of corporate disclosures.

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