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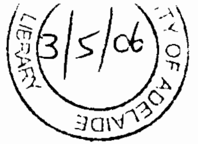

School of Commerce

Voluntary Corporate Disclosure Relating to Financial Instruments Before and After Mandatory Requirements: The Impact of Proprietary and Political Costs

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This thesis is presented as part of the requirements for
the award of the degree of Doctor of Philosophy of the University of Adelaide

December 2005

Table of Contents

Page

Table of Contents i
List of Tables vi
List of Figures ix
Abstract x
Declaration xii
Acknowledgements xiii

Chapter 1: Introduction to the study 1

1.1 Preamble 1

1.2 Issues Underlying the Development of Standards 5

1.3 Why Financial Instruments Disclosure? 9

1.4 Motivation for the Study 10

1.5 Research Problem 12

1.6 Aims and Objectives of the Research 12

1.7 Scope of the Research 13

1.8 Outline of Subsequent Chapters 15

Chapter 2: Literature Review 18

2.1 Introduction 18

2.2 The Relationship between Mandatory and Voluntary Disclosure 18

2.3 The Disclosure Principle, Signalling Theory, Proprietary Costs and Voluntary Disclosure 25
2.3.1 The Disclosure Principle 25
2.3.2 Signalling Theory 28
2.3.3 Proprietary Costs and Voluntary Disclosure 37
2.3.3.1 Investment Growth Opportunities 43
2.3.3.2 Corporate Hedging Strategies 49

2.4 Legitimacy Theory, Media Attention and Corporate Disclosure, Political Costs and Voluntary Disclosure 53
2.4.1 Legitimacy Theory 54
2.4.2 Media Attention and Corporate Disclosure 67
2.4.3 Political Costs, Firm Size and Voluntary Disclosure 73

Page

2.4.4 Probability of Financial Distress and Corporate Disclosure 78

2.5 Control Variables 81
2.5.1 Industry of the Company 82
2.5.2 Dispersion of Share Ownership 83

2.6 Summary 84

Chapter 3: Conceptual Framework, Variable Identification and Hypotheses Development 86

3.1 Introduction 86

3.2 Conceptual Model 86
3.2.1 Theory of Regulation of Information Markets 88
3.2.2 Proprietary Information Theories 89
3.2.3 Legitimacy Theories 91

3.3 Variable Identification and the Empirical Schema 94
3.3.1 Identification of Independent Variables 94
3.3.1.1 Anticipation of and the Existence of Mandatory Disclosure Requirements 94
3.3.1.2 Investment Growth Opportunities and Hedging Strategies 95
3.3.1.3 Probability of Financial Distress, Size of Company and Negative Media Attention 95
3.3.2 Moderating Variables 96
3.3.3 Control Variables 96
3.3.4 Regression Equation and the Empirical Schema 96

3.4 Hypotheses Development 100
3.4.1 Hypotheses for Testing the Relationship between Mandatory and Voluntary Disclosure 100
3.4.2 Hypotheses for Testing the Validity of Signalling Theory and the Impact of Proprietary Costs on Voluntary Disclosure 102
3.4.3 Hypotheses for Testing the Validity of Legitimacy Theory Including the Media Agenda-Setting Theory and the Impact of Political Costs on Voluntary Disclosure 105

3.5 Summary 110

Chapter 4: Research Methodology and Variable Measurement 111

4.1 Introduction 111

4.2 Choice of Method 111

Page

4.2.1 Content Analysis of Annual Reports 112
4.2.2 Ratings by Panel of Experts 115

4.3 Sample Selection 116
4.3.1 Sampling Procedure – Australia 116
4.3.2 Sampling Procedure – Malaysia 118

4.4 Variable Measurement (Dependent Variable) 119
4.4.1 Quantity Voluntary Disclosure Index (VDISC) 119
4.4.1.1 Segregating Items into Mandatory and Voluntary Disclosure 120
4.4.1.2 Counting Lines 124

4.4.2 Quality Voluntary Disclosure Index (VDISCPROP) 127
4.4.2.1 Questionnaire 127
4.4.2.2 Weighting the Voluntary Disclosure Items 129

4.4.3 Comprehensiveness of Mandatory Disclosure 130

4.5 Variable Measurement (Independent Variables) 130
4.5.1 Mandatory Disclosure Effect 131
4.5.2 Investment Growth Opportunities 131
4.5.3 Corporate Hedging Strategies 134
4.5.4 Probability of Financial Distress 136
4.5.5 Size of Companies 140
4.5.6 Media Attention 140

4.6 Variable Measurement (Control Variables) 140
4.6.1 Industry of the Company 140
4.6.2 Dispersion of Share Ownership 141

4.7 Summary 145

Chapter 5: Data Analysis and Discussion 146

5.1 Introduction 146

5.2 Proprietary Cost Ratings 147

5.3 Consensus Test on Respondents' Ratings of Proprietary Cost Weights 150

5.4 Descriptive Statistics for Australian Companies 151
5.4.1 Mandatory and Voluntary Disclosure Items 151
5.4.2 Weighted Voluntary Disclosure Items 159
5.4.3 Growth and Hedging Components 162
5.4.4 Probability of Financial Distress 163
5.4.5 Media Attention 164

Page

5.5 Hypotheses Testing for Australian Companies 164
5.5.1 Univariate Tests 164
5.5.1.1 Effects of Anticipation of and the Existence of Mandatory Disclosure Requirements – Tests of H1, H2 and H3 165
5.5.1.2 Effects of Proprietary Costs – Tests of H4, H5 and H6, 174
5.5.1.3 Effects of Political Costs – Tests of H7, H8 and H9a 179

5.5.2 Multivariate Tests 183
5.5.2.1 Choice of Multivariate Model 183
5.5.2.2 Regression Application to Panel Data in this Study 186
5.5.2.3 Multicollinearity Tests 190
5.5.2.4 Choice of Fixed Effects Estimator and Inclusion of Statistical Adjustments 194
5.5.2.5 The Proprietary Costs Results – Tests of H1, H2, H4 and H6 196
5.5.2.6 The Political Costs Results – Tests of H7, H8, H9a and H9b 206
5.5.2.7 The Combined Results 213

5.6 Preliminary Comparative Analysis with Malaysian Companies' Disclosures 218
5.6.1 Descriptive Statistics on Mandatory and Voluntary Disclosure Items 219
5.6.2 Univariate Tests on the Effects of Mandatory Disclosure – Tests of H1, H2 and H3 221

5.7 Summary 226

Chapter 6: Conclusion 230

6.1 Introduction 230

6.2 Summary and Conclusions Regarding the Conceptual Model in this Study 231

6.3 Summary and Conclusions Regarding the Empirical Findings in this Study 234

6.4 Implications for Theory and Practice 239

6.5 Limitations of the Study 241
6.5.1 Limitations Embodied in the Selected Theories 241
6.5.2 Limitations of Data Collection 243
6.5.3 Limitations of Data Analysis 244
6.5.4 Limitations of Scope in Interpreting the Results 245

6.6 Directions for Future Research 246

Page

Appendices 249

Appendix 1 List of Sample Companies for the Australian Study by GICS Industry Classification 249

Appendix 2 List of Sample Companies for the Malaysian Study by Sectors 252

Appendix 3 Components of Mandatory Disclosure as Required by AASB 1033 254

Appendix 4 Components of Mandatory Disclosure as Required by MASB 24 258

Appendix 5 Categories and Items of Mandatory and Voluntary Disclosures 261

Appendix 6 Keywords Used to Search for Items of Disclosure 264

Appendix 7 Sample Covering Letters Accompanying the Questionnaires 266

Appendix 8 Questionnaires to Securities Analysts 268

Appendix 9 Sample of Letters Requesting for an Interview with Securities Analysts 276

List of References 278

Voluntary Corporate Disclosure Relating to Financial Instruments Before and After Mandatory Requirements: The Impact of Proprietary and Political Costs

Abstract

This study presents empirical evidence on voluntary corporate disclosure relating to financial instruments in a regulated and unregulated disclosure environment, and the impact of proprietary and political costs on such disclosure decisions. The study examines whether the introduction of an accounting standard relating to the disclosure of financial instruments affects voluntary corporate disclosure, and the impact of proprietary and political costs on such disclosure decisions. Although there are studies that have analysed the extent of voluntary disclosure for derivative instruments, there is a paucity of empirical evidence regarding the comparative impacts of proprietary and political costs on voluntary corporate disclosures, including financial instruments-related disclosures. The evidence for this study is sampled from listed Australian companies' annual reports from 1 January 1995 to 31 December 2000 for 70 companies from four industries, giving 420 firm-year observations. Preliminary findings of the effect on voluntary disclosure as a result of the introduction of a similar standard in Malaysia are also presented in order to consider the cross-country generalisability of these disclosure influences in different regulatory settings.

Three lines of theoretical arguments: a change in the regulatory environment, the extent of proprietariness of information, and the political cost of non-disclosure, are identified as having an influence on voluntary corporate disclosure. These lines of argument are integrated to form a conceptual framework for testing their combined effects on the extent of voluntary disclosure of financial instruments-related information. These lines of argument are drawn from broader underlying theories namely the disclosure principle, signalling theory, proprietary cost principle, legitimacy theory, the media agenda-setting theory, and the political cost hypothesis.

The fixed effects regression model for panel data analysis is used to analyse the data in this study. The Hausman (1978) test confirms the choice of the fixed effects regression model.

This study finds that both in Australia and Malaysia an increase in the mandatory disclosure of non-proprietary information relating to financial instruments has resulted in an increase in the voluntary disclosure of related proprietary information. However, there are mixed findings between Australia and Malaysia relating to the disclosure of voluntary information in the anticipated regulation period. For the effects of proprietary and political costs, findings from the study suggest that a firm's growth opportunities are significant in limiting voluntary disclosure of proprietary information in the period prior to regulation. Consistent with political cost hypothesis, legitimacy theory and media agenda-setting theory, the size of a company and high negative media attention are significantly positively related to voluntary corporate disclosure. However, corporate hedging and financial distress have no effect on the voluntary disclosure of financial instruments-related information.

These findings add to the literature on the explanatory power of disclosure theories underpinning proprietary and political costs and regulatory settings, and have practical implications for regulators who develop financial reporting standards, investors who rely on corporate signals, and management who develop disclosure strategies.