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Determinants of financial information disclosure: A visualization test by cognitive mapping technique

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ABSTRACT

The purpose of this paper is to examine determinants of financial information disclosure by Tunisian companies. The methodology is based on qualitative approach, using the cognitive mapping technique. To take into account the specificities of the Tunisian economic, we felt that it is essential to conduct a qualitative analysis in the light of which we can identify the factors motivating the disclosure of financial information. The qualitative analysis is based on the census via a set of cases carried out in several Tunisian companies to understand their perceptions regarding the determinants of financial disclosure.

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Determinantes de la divulgación de la información financiera: un test de visualización mediante la técnica de mapas cognitivos

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RESUMEN

El objetivo de este artículo es examinar los determinantes de la divulgación de la información financiera por parte de empresas tunecinas. La metodología se basa en un enfoque cualitativo mediante la técnica de mapas cognitivos. Si se quiere tener en cuenta las particularidades de la economía de Túnez, es esencial llevar a cabo un análisis con el que sea posible identificar los factores que motivan la divulgación de la información financiera. El análisis cualitativo se basa en el censo con una serie de casos dirigidos en varias empresas tunecinas para comprender sus percepciones con respecto a los determinantes de la divulgación de la información financiera.

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1. Introduction

Several studies have been conducted on the extent of disclosure in general and several attempts have been made to explain the different levels of financial information disclosure based on the different characteristics of the firm such as size, status trading and industry type. Indeed, several theories have been used to explain disclosure in general.

This study is to analyse financial information disclosure of Tunisian firms. We felt that it is essential to conduct a qualitative analysis in the light of which we can identify the factors motivating the disclosure of financial information.

Second, given the determinants identified by qualitative analysis, we will perform an analysis by the technique of cognitive mapping to visualize the relative importance of each concept (determinants of financial information disclosure) regarding the disclosure. To do this, we will illustrate, in a first section, the

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determinants through a review of previous studies. In a second section, we present the methodology based on a qualitative approach to understand the importance of the determinants that drive Tunisian companies to disclose financial information. The main results and interpretations will be presented in the third section before concluding.

2. Literature review

2.1. Determinants of financial information disclosure

Several studies have been conducted on the extent of disclosure in general and several attempts have been made to explain the different levels of financial information disclosure based on the different characteristics of the firm such as size, status trading and industry type. Indeed, several theories have been used to explain disclosure in general.

These theories include agency theory, the signal theory, the theory of diffusion of innovations and cost-benefit analysis. Since the first study in 1999, the main variables analyzed were mainly focused around the size of the company, or the status of trading the business of the company. This does not preclude that other factors such as profitability, legal concerns and competition, scoring, environment, the liquidity of the ownership structure, leverage, the type of listener, trading on foreign markets and regulation, were also analyzed by some researchers. However, their effect and frequency were not as important as the company size except where the context factors of the study had impact on the results. In the same theoretical framework, it is assumed that listed companies publish more information than unlisted companies to reassure investors and obtain, therefore, better financing conditions for a minimal cost of capital. The sector is also a determining factor in the decision of financial disclosure. In fact, the industry or the type of industry can be more or less economically sensitive, exposing firms to the costs of different importance.

According to the theory of political costs and the theory of signals belonging industrial policy can affect the vulnerability of the firm. Firms in the same industry are trying to adopt the same level of disclosure. Also, if a firm belonging to a particular industry does not go as fast as other disclosure requirements, this could be interpreted as a bad signal that the firm hides bad news.

2.2. Characteristics of the firm

Many studies have examined the relationship between firm-specific characteristics and voluntary disclosure level Jensen and Meckling (1976), Fama and Jensen (1983) studied the association between company's firm size, debt ratio, owner ship and auditor firm size and the level of disclosure.

Alsaeed argued that firm size, profitability and auditor firm size influence the level of voluntary disclosure.

A number of studies over the past decades have successfully tested the influence of firm's characteristics on the financial information disclosure. Most researchers have found a positive relationship between firm's characteristics and financial information disclosure. Several reasons have been advanced in the literature in an attempt to support this positive association. Information disclosures may be used to decrease agency costs, to reduce information asymmetries between the company and the providers of funds, and to reduce political costs. The reasons for large firms' tendency to disclose more information are explained: accumulation and disclosure cost of information is not high compared to smaller firms; management of larger corporations is likely to realize the possible benefits of information disclosure, such as greater marketability and greater ease of financing; smaller corporations may feel that full information disclosure may endanger their competitive position. In addition, since larger firms are more exposed to public scrutiny than smaller firms, they are inclined to disclose more information. Large firms are likely to be more complex and complexity requires more disclosure. Many previous studies have supported a positive association between firm size and voluntary disclosure level.

2.3. Industry type

It has been indicated by several prior studies that industry type affects the level of IC disclosure since stakeholders' expectations as well as scrutiny from the public and special interest groups differ across various industries. Various methods in previous research had been used to capture industry effects on IC disclosure. For instance, Guthrie and Petty (2000) employed the 2-digit industry classification code provided by the Australian Stock Exchange (ASX) to classify their sample into six industry clusters. Through comparison amongst the clusters, they found that no individual industry reported IC to a greater extent than any other. Firer and Williams (2003) focused on IC disclosure in finance, electrical and IT (information technology) industries and found that there was only a moderate industry effect. Nevertheless, Oliveira, Rodrigues, and Craig (2006) observed a statistically significant effect through classifying industry into intangible intensive industries and intangible non-intensive industries.

2.4. Agency theory

The agency theory explains disclosure as a mechanism to reduce the costs derived from conflicts between owners (principals), managers (agents) and creditors. Jensen and Meckling (1976) argue that in negotiating prices creditors anticipate the possibility of shareholders trying to expropriate their wealth, for example, by increasing business risk after issuing debentures. Since the increase in financing costs induced by such expectation must be finally assumed by the firm, it is possible that it will try to reduce it by: a) agreeing on some restrictions or covenants Schipper (1981) and b) eliminating the cost of the information needed for creditors to reduce their uncertainty and control managers; i.e. by disclosing information. In a similar way, inasmuch as the interests of shareholders and managers are different, the agency theory forecasts that there is a greater probability for the latter to act to the expense of the former, and so they will disclose the information needed for the principals to control agents and for them to demonstrate that they are acting correctly Malone, Fries, and Jones (1993) and Hossain, Lin Mei, and Adams (1994). From the agency theory it can be deduced that the benefits expected from an increase in disclosed information will be greater in those firms in which the reduction of agency costs are greater: those with a greater debt, with more atomized shareholders and with a larger size. In general, empirical studies do not support the agency theory. The relationship expected between indebtedness and information disclosure has not been confirmed. Numerous research studies, like Chow and Wong-Boren (1987), García and Monterrey (1993), Wallace, Naser, and Mora (1994), Hossain and Arman (1995), Meek, Roberts, and Gray (1995), Raffournier (1995) and Depoers (2000) reject such hypothesis in different countries and sectors. The study of the relationship between disclosure and shareholder atomization has provided mixed results. Thus, whereas Mckinnon and Dalimunthe (1993) and Malone et al. (1993) found significant associations; Depoers (2000) rejected such relationship. Wallace and Naser (1995) included among the indirect costs of disclosure any reduction in future cash flows that may result from the loss or reduction of the firm's competitive advantages (what has been called "proprietary cost theory"). One of the disadvantages would

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