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The impact of board and audit committee characteristics on voluntary disclosure: A meta-analysis

Khaled Samaha[a,*], Hichem Khlif[b], Khaled Hussainey[c]

[a] School of Business, The American University in Cairo, New Cairo, Cairo, Egypt
[b] Management, University of Monastir, Sfax, Tunisia
[c] Accounting, Plymouth University, Plymouth, UK

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ABSTRACT

We apply meta-analysis to a sample of 64 empirical studies to identify potential moderators to the relationship between board, audit committee characteristics and voluntary disclosure. We also examine whether the results are affected by differences in the construction of disclosure index, the type of voluntary disclosure, the method of disclosure, the definitions of variables relating to corporate governance, the level of investor protection, and country geographic location. We find that, while board size, board composition and audit committee have a significant positive effect on voluntary disclosure, CEO duality has a significant negative impact. Additionally, geographic location moderates the association between board size, board composition, CEO duality and voluntary disclosure. Furthermore, the association between CEO duality and voluntary disclosure is moderated by disclosure type, disclosure method and the level of investor protection. Finally, differences in definitions of explanatory variables affect the association between board composition and voluntary disclosure.

1. Introduction

Although disclosure theories suggest a positive association between corporate governance and disclosure, empirical research offers mixed results (Wang & Hussainey, 2013). Brown, Beekes, and Verhoeven (2011, 153) note that since the literature on corporate governance "already has a degree of maturity, most improvements will be incremental". Generally, empirical evidence is restricted to only one country thus potentially reducing the ability to ascertain and generalize research findings and limiting the theoretical development of this research area. To better understand the association between corporate governance and voluntary disclosure, we conduct a meta-analysis of 64 empirical studies.

Our motivation is to reconcile the inconsistent findings of prior research and draw insights which may not be obvious from narrative reviews. In doing so, our paper offers three novel contributions. First, we complement studies by Pomeroy and Thornton (2008) and García-Meca and Sánchez-Ballesta (2010) by examining board size and composition, CEO duality, and audit committee. Next, we rely on intellectual, social, environmental and internet disclosures as recommended by García-Meca and Sánchez-Ballesta (2010, 622). Finally, we examine whether disclosure index construction, disclosure method, explanatory variable definitions, and research settings affect results reported previously in the empirical literature.

* Corresponding author. Tel.: +20 1225772777.
E-mail address: ksamaha@aucegypt.edu (K. Samaha).

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Our meta-analytic findings show that country location affects the association between board size, board composition, CEO duality and voluntary disclosure. Additionally, we find that investor protection, as well as the type and the method of disclosure influence the relationship between CEO duality and voluntary disclosure. Finally, we note that the proxies used to measure explanatory variables appear to shape the relationship between board composition and voluntary disclosure.

The remainder of this paper is organized as follows. Section 2 reviews the literature and formulates hypotheses, and Section 3 describes data collection. Section 4 presents the methodology, with results reported in Section 5. Section 6 concludes.

2. Literature review and hypothesis development

Board and audit committee characteristics are key determinants of corporate reporting policy (Khlif & Samaha, 2014; Chau & Gray, 2010; Chen & Jaggi, 2000). In this section, we review the theoretical foundations for the association between board size, board composition, CEO duality, audit committee and voluntary disclosure.

2.1. Board size

Board size may play an important role in promoting corporate transparency. For instance, a large board size may be beneficial to the firm since it increases the pool of expertise and available resources (Hidalgo, García-Meca, & Martínez, 2011). The concept of expert power suggests that large board size allows diverse experiences and opinions which potentially increase a board's supervisory capacity, thus implying more voluntary disclosure (Gandía, 2008).

On the other hand, Herman (1981) argues that large boards are more likely to be ineffective. Lipton and Lorsh (1992) suggest that scheduling meetings and reaching consensus during board meetings, are more difficult for large boards of directors. Therefore, a board's monitoring ability may be less effective, thus contributing to less voluntary information.

Some empirical studies suggest a positive association between board size and voluntary disclosure (e.g. Abeysekera, 2010; Allegrini & Greco, 2013). However, other empirical works (Arcay & Vazquez, 2005; Prado-Lorenzo & Garcia-Sanchez, 2010) find an insignificant association between both variables. Therefore, we formulate the following non-directional hypothesis:

H1. There is an association between board size and voluntary disclosure.

2.2. Board composition

Agency theory suggests that independent directors may have a significant impact on the effectiveness of a board's monitoring activities (Fama & Jensen, 1983). Citing the reputation effect, Samaha, Dahawy, Abdel-Meguid, & Abdallah (2012), Samaha, Dahawy, Hussainey, and Stapleton (2012b), and Patelli and Prencipe (2007) argue that outside directors may gain greater public esteem to build their reputations as expert monitors in the labor market, by providing more voluntary disclosure. Additionally, García-Meca and Sánchez-Ballesta (2010) argue that independent directors push inside board members to improve corporate reporting policy through more voluntary disclosure (i.e., the "domino effect").

By contrast, Patelli and Prencipe (2007) suggest that since outside directors are normally appointed by dominant shareholders, the monitoring role of independent directors will be limited (Demb & Neubauer, 1992). Under these conditions, a high proportion of outside directors may actually have a negative effect on voluntary disclosure.

Empirical evidence on the association between board composition and voluntary disclosure is inconclusive. While Adams and Hossain (1998) and Cheng and Courtenay (2006) find a significant positive association between voluntary disclosure and board composition, Abdelsalam and Street (2007) and Eng and Mak (2003) document a negative association between both variables. Therefore, we formulate the following non-directional hypothesis:

H2. There is an association between board composition and voluntary disclosure.

2.3. CEO duality

A combined leadership structure may facilitate CEO entrenchment (Pfeffer, 1981) and contribute to the misalignment of interests (Kim, Al-Shammari, Kim, & Lee, 2008). Fama and Jensen's agency framework (1983) indicates that a unified leadership structure reduces the importance of the separation between decision control (chair of the board) and decision management (CEO). Accordingly, this CEO duality may reduce checks and balances and compromise board independence management oversight (Khlif & Samaha, 2014; Samaha et al., 2012a,b; Cerbioni & Parbonetti, 2007). On the other hand, the CEO has a superior knowledge of the private information dealing with a firm's competitive advantages and its internal conditions. Therefore, duality may limit the complete transfer of private information between the CEO and board members resulting in less voluntary disclosure (Kim et al., 2008). However, Anderson and Anthony (1986) point out that duality enables a clear-cut leadership in the formulation and the implementation of firm's strategy, and this leads to greater efficiency. They argue that a unified leadership structure reduces information sharing costs and conflict of interests between the CEO and non-CEO chairman. Proponents of duality also highlight the importance of clear lines of authority and unity of command to reduce conflicts and improve decision making (Rhoades, Rechner, & Sudramurthy, 2001). Therefore, CEO duality may result in more voluntary disclosure.