THE INFLUENCE OF FIRM'S SPECIFIC CHARACTERISTICS ON EXTENT OF VOLUNTARY DISCLOSURES FOR THE MANUFACTURING COMPANIES LISTED AT DAR ES SAALAM STOCK EXCHANGE MARKET.

Fabian Casmir

Department of Accounting and Finance

Institute of Accountancy Arusha, Tanzania

casmirr@gmail.com

Paul M. Msella

Department of Accounting and Finance

Institute of Accountancy Arusha, Tanzania

msellapaul@gmail.com

Abstract

Financial reporting and disclosures are methods for keeping investors well informed, present business environment makes compliance with only mandatory disclosure not sufficient nor appropriate to meet users' needs for corporate information. This calls for additional information requirement; this additional information is known as voluntary disclosure. The objective of this study was to examine how significant firm specific characteristics influence the extent of the voluntary disclosure in the annual reports of all manufacturing companies listed at Dar es salaam stock Exchange in the category of industrial and allied. Secondary data were collected from annual report of the companies, observation of 35 annual reports for the period of five years (2016-2020) was employed. With help of EVIEW software, data were analyzed using descriptive, correlation and regression analysis where the study found that significant positive relationship between extent of voluntary disclosure and external auditors' size, capital structure and shareholding structure, whereas other variables were found insignificant including audit committee, profitability, and firm size. The study recommends that significant relationship of the variables should not be the only criteria for voluntary disclosure, voluntary disclosure enhance transparency and accountability, moreover the study recommend for companies to keep well-balanced of the variables that enhance voluntary disclosure.

Keywords: Mandatory disclosure, Voluntary disclosure, correlation, Regression

1.0 Introduction

For the interest of the business environment, organizations through their annual reports are required to disclose least levels of mandatory information, such requirement of disclosure refers to mandatory disclosure, if not complied to, and if they will fail to meet the requirement of the standard may face disqualification by regulators. Therefore, most organizations go along completely with those least levels of the mandatory disclosure. However, present business environment makes compliance with this only mandatory disclosure not sufficient nor appropriate to meet users' needs for corporate information. This calls for additional information requirement; this additional information is known as voluntary disclosure. The term “voluntary disclosure” means to disclose corporate information other than information required by law. According to Meek et al. (1995, p. 555), voluntary disclosure means “free choices on the part of company management to provide accounting and other information deemed relevant to the decision needs of users of their annual reports”. For this study, “voluntary disclosure” is used to refer to those items of information that are disclosed in the annual reports of manufacturing companies which are not assigned in the Companies Act, 2002 and other regulatory authorities.

The 1997 and 2008 financial crisis will probably go down in history as one of the most devastating economic events of the centuries. Apart from that, the corporate World has experienced devastating corporate financial scandals in the 21st century in the form on Enron, WorldCom among others. Therefore, currently business environment, information is key challenge that the business is facing that has never been the case before. The reasons for information to be key at currently business environment are.

Firstly, the current age is the era of information, for which information has become a decisive influence that means, any additional information has become a decisive changer in investment decisions by users of the provided information; thus, the mandatory required information is not enough at present. Secondly, the separation of ownership and management of companies (agency relationship) creates what is known as the problem of information asymmetries and agency problem. Business normally use annual reports to reduce the information gap. Lev and Wallace, however, argue that the financial statements do not provide sufficient information to users, which increases the information gap between information providers (managers) and information receivers (stakeholders). Moreover, the nature and extent of the information requirement at present are larger and different than in the past, this create the variance in the information that was the case in the past. Thus, to reduce this issue, brings the need to disclose more information voluntarily by businesses through their annual reports and other information centers. Thirdly, recent decades have witnessed financial shocks and crisis that led to the collapse of the long-term companies, bankruptcy, and debt crisis. We believe that one of the major reasons for these collapses is the concealment of relevant information and non-disclosure, even though the failed companies had found that they fully comply with the minimum levels of compulsory disclosure. As a result, increased the need for voluntary disclosure. (Elfeky, 2017).

Furthermore, a review of the East Asia financial crisis indicates that inadequate disclosure was a contributing factor to the depth and breadth of the crisis. Since financial statements act as the most reliable and easily accessible vehicle for dissemination of enterprise-level information, the lack of adequate accounting disclosures prevented investors and creditors from receiving the timely information they needed to choose between successful and potentially unsuccessful enterprises. It is a known fact that the very threat of disclosure influences behavior and improves management, particularly risk management. It seems that the lack of appropriate disclosure requirements indirectly contributed to the deficient internal controls and imprudent risk management practices of the corporations and banks in the crisis-hit. (Rahman, 1998).

Witnessed financial shocks and crisis led the study to believe that one of the major reasons for these collapses is the concealment of relevant information and non-disclosure, therefore the objective of the study was to examine how significant firm specific characteristics has on the extent of the voluntary disclosure on manufacturing companies listed in DSE, such firms specific characteristics are firm size, firm profitability, firm capital structure, shareholding structure, audit committee and auditor's size. The gaps from previous empirical studies and financial crisis brought a gap for further study, the study expected significant relationship between voluntary disclosure and firms' specific characteristics.

2.0 Literature Review

This represents the concept of voluntary disclosure and its relationship with a firm's specific characteristics. It developed a theoretical framework that analysed several theories which had been developed to explain voluntary disclosure with respect to business entities. These are signaling theory, Capital need theory, and stakeholder theories. It also investigated the empirical evidence in relation to voluntary disclosures undertaken in both developed and developing countries to measure the general level of voluntary disclosure in corporate annual reports. Further, it identified any research gaps that other researchers capitalized on in the quest to study the effects of voluntary disclosures of various aspects of a firm.

Therefore, the term "voluntary disclosure" means to disclose corporate information other than information required by law. According to Meek et al. (1995, p. 555), voluntary disclosure means "free choices on the part of company management to provide accounting and other information deemed relevant to the decision needs of users of their annual reports". For this study, "voluntary disclosure" is used to refer to those items of information that are disclosed in the annual reports of manufacturing companies which are not assigned in the Companies Act, 2002 and other regulatory authorities.

According to (Ho & Taylor, 2013) a disclosure of voluntary information by companies can be of different types. The major categories of voluntary disclosure are strategic, financial, and nonfinancial (Sukthomya, 2011). To obtain a comprehensive assessment of voluntary practices in the manufacturing industries in Tanzania, this study used seven (7) categories of voluntary corporate disclosure. These were: (i) General and strategic information, (ii) Financial data, (iii) Forward-looking information, (iv) Human resources Disclosure, (v) Social and environmental Disclosure, (vi) Information on corporate Governance, and (vii) Shares information disclosure.

On the other hand, firm specific characteristics are internal corporate characteristics that comprise elements of corporate governance, capital structure and financial performance of the company, these can further be broken down into firm size, firm profitability, firm capital structure, shareholding structure, audit committee and auditors' size. The study explores to what extent, firm size, firm profitability, firm capital structure, shareholding structure, audit committee and auditor's size as firm specific characteristics significant influenced extent of voluntary disclosure in the annual report of manufacturing company listed in the DSE. Theoretical and empirical review include.

Signaling theory, the theory suggest that a signal is a movement, action or sound that is used to communicate instructions or information. For instance, in a recruitment exercise, prospective job applicants strive to signal their capabilities through well written curriculum vitae's that clearly outline their strengths in terms of work experience, educational background and even mental and physical abilities. Signaling theory was originally developed and clarify information asymmetry in labour markets, also it has been used to explain voluntary disclosure in corporate reporting (e.g., (Raffournier, 1995)). According to (Morris, 1987) signaling is a common phenomenon relevant in the market with information asymmetry; As a result of the information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favorable reputation, hence the signaling theory shows how this asymmetry can be reduced by the party with additional information signaling it to others. There are ways by which the high-quality sellers‟ products can distinguish themselves. One is to disclose information indicating quality then the buyer can verify certain of this information, and such self-verification will give credibility to the rest. Buyers sensibly interpret nondisclosure information (non-signaling) regarding the seller's products being sold as "bad news". Therefore, the buyers will discount the price of the product up to a point at which it is in the seller's interest to reveal the information. The information asymmetry between sellers and the prospective buyers can be overcome by the sellers with more detailed information signaling it to buyers (Morris, 1987). Based on the signaling theory viewpoint, companies‟ managers are interested in disclosing „good news‟ to the market participants to avoid the undervaluation of their shares. Additionally, managers of companies who are more interested to disclose additional information voluntarily bear in mind that this guarantees a good signal about their companies‟ performance and weakens information asymmetry (Khlifi, 2010). Signaling theory suggests that voluntary information disclosure in corporate annual reports can be used as a signal to improve the corporate image/reputation, attract new investors, lower capital costs, and help to improve its relationships with the relevant stakeholders, (Hawashe, 2014).

Capital Need Theory, the theory explains that managers who are intending to make capital market transactions have an incentive to disclose more information voluntarily to decrease the gap of information asymmetry problem and in turn decreases the financing cost, (Healy, 2001).The capital need theory suggests that voluntary disclosure helps in achieving a company's need to raise capital at a low cost. Additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares. The rationale beyond this is the fact that "a company's cost of capital is believed to include a premium for investors' uncertainty about the adequacy and accuracy of the information available about the company. Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011). At the same time, companies with a higher level of disclosure should reasonably tend to gain higher stock prices over the long run. The argument is that enhanced corporate disclosure is expected to lead to improvements in investors" capital-allocation decisions as well as investors" assessment of the return from a firm's share, (Cooke, 1989). It has also been argued that greater information disclosure in corporate annual reports tends to reduce the fluctuation of a company share price.

Stakeholders' theory assumes that Companies must meet and satisfy the needs of information and interests of all stakeholders, not just shareholders. This theory also expects that large firms are more perspective to provide further voluntary information because of most pressure from many stakeholders.

In Tanzania (Bishagazi, 2021) conducted study on "Firm-level Factors and Voluntary Corporate Disclosure in Tanzania", The results indicate the rate of disclosure is low in the mining and manufacturing industries; however, mining companies have better disclosure practices than manufacturing companies, it was also indicated that corporate disclosure practices of companies in Tanzania is still an area of controversy due to limited empirical research. The research remarked that, the research gap on voluntary corporate disclosure practices in Tanzania is far from being filled and empirical studies on voluntary disclosure practices for firms in Tanzania are extremely few.

In Tanzania, (Kimaro, 2017) conducted an empirical study to examine, "Corporate governance practices and voluntary disclosure" for some selected public institutions in Tanzania, he found that corporate governance was determined by the existence of audit committees, Board size, Board meeting, Audit firm size and Compensation of Board. The findings of this study reveal that the presence of audit committee, Board size and number of meetings reinforces voluntary disclosure.

(Barako, 2007) Studied the determinants if voluntary disclosure in Kenya companies' annual reports. The study examined factors associated with voluntary disclosure of four types of information: general & strategic, financial, forward looking, and social and board information in annual reports for Kenya from the year 1992-2001. The main theory outlined in the study was the agency theory. A disclosure index was constructed, and ordinary least square method used. The findings were that board size, leadership structure, foreign ownership, institutional ownership, and firm size significantly affect the level of disclosure.

In Palestine, (Sweiti, 2013) conducted an empirical study to examines which factors influence voluntary disclosure in the annual reports. Since corporate scandals have become a known feature in recent years, voluntary disclosure should be increased, and be documented clearly in the annual reports. The study analyzed 48 listed companies at the Palestine Exchange "PEX" for the year 2011, and 35 companies for the year 2007 which represented the whole population for that period. The study also examined the extent to which critical factors such as nonexecutive directors, audit committee, board size, board activity, and number of shareholders influence voluntary disclosure practices. The analysis show that the following critical factors influence voluntary disclosure, non-executive directors, board size, audit committee, and number of shareholders. The factor that does not influence the company's voluntary disclose information is board activity

In Vietnam, (Hieu, 2015) investigate the factors affecting the extent of voluntary disclosure by examining the annual reports of 205 industrial and manufacturing companies listing on Ho Chi Minh Stock Exchange (HSX) and Hanoi Stock Exchange (HNX) for the year of 2012. Those factors were company size, profitability, leverage, state Evidence from the study suggests two main findings: (1) Companies with high foreign ownership have a high level of voluntary disclosure; (2) The company size is an important factor related to the increased level of voluntary disclosure in annual reports of Vietnamese listed companies. However, no significant associations were found between profitability, leverage, state ownership, managerial ownership, board independence, role duality, and type of external auditors as hypothesized in this study.

2.2 Conceptual Framework

Independent Variables	Dependent Variable
Firm Size	
Firm profitability (ROA)	
Firm capital structure (Debt ratio)	Voluntary Disclosure
Shareholding structure	
Audit committee (1/0)	
Auditor's size (1/0)	

Figure 1: Conceptual Framework

3. Methodology

Data collection is the process of obtaining evidence in a systematic way to ascertain answers to the research problems (Kitchin and Tate 2007). Secondary data were used in the study, published annual reports of listed manufacturing companies from DSE were obtained from DSE website and from the company's website. This consist of annual reports of the companies in the population for the year 2016 to 2020, for this case the study constituted a total of 35 observation. The financial statements for each company were subjected to the voluntary disclosure checklist. The study was quantitative, data collected were analysed using both descriptive and statistical analysis tools with the help of EVIEWS software to establish functional relationship between firms' specific characteristics and extent of voluntary disclosure by using panel data model (Pooled OLS regression). Functional relationship was specified as below.

$TVDISit = \beta o + \beta_1(CAPSit) + \beta_2(SIZEit) + \beta_3(AUDit) + \beta 4(SHAR) + \beta 5(ROAit) + \beta 6(AUDCit) + \varepsilon it$ ….. (3.1)

where:

AUD =Firm Auditor's Size-B4 or Not (1,0)　　　AUDC = Existence of Audit committee

CAPS = Firm capital structure -Debt ratio ROA = Firm profitability level

SHAR = Firm shareholding structure SIZE =Total Assets

TVDIS = Total voluntary disclosure Index (Dependent variable)

Ɛ = The error term that represent all other variables that may influence extent of disclosure

4.0 Findings and Discussions

4.1 Correlation Analysis

The preliminary analysis was established by the researcher to establish the existence of linear relationship among the variables and to examine whether the independent variables are collinear among one another before presenting the actual results. The table 4.1 below shows the correlation results among the variables, in such a way that, the correlation coefficient value (r) range of 0.0 to 0.69 is considered weak and 0.70 to 1.00 is considered strong.

Table 4.1: Correlation Matrix

Correlation	EXVDI
CAPS	-0.454169
AUDC	-0.274286
AUD	0.521613
ROA	0.292649
SHH	0.750273
SIZ	-0.252389

Source: Researcher's Computation, 2022

4.2 Regression Analysis

With the intention to achieve the objective for investigating the significancy effect that independent variable has on the dependent variable the pooled regression analysis was employed. Dynamic panel regression analysis were used by a study to estimate the relationship among the variable. The variables in this case were used in their level form. The findings were presented in the table 4.1 below.

Table 4.1 Panel Dynamic OLS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUD	0.125612	0.026998	4.652610	0.0001
AUDC	-0.003815	0.037189	-0.102597	0.9190
CAPS	0.210653	0.004654	2.288808	0.0298
ROA	0.113446	0.083439	1.359624	0.1848
SHH	0.729220	0.054871	13.28983	0.0000
SIZE	0.003778	0.005220	0.723794	0.4752
C	-0.060701	0.070447	-0.861648	0.3962
R-squared	0.889234	Mean dependent var		0.659683
Adjusted R-squared	0.865498	S.D. dependent var		0.089015
F-statistic	37.46405	Durbin-Watson stat		1.884483
Prob(F-statistic)	0.000000			

Source: Researcher Computation, 2022

The results above in table 4.1, shows that, the estimated regression model is statistically significant at 5% level of significant. This was provided by the probability of F-statistic of 0.00000 which is less than 0.05 level of significnce at 95% confidence level. The researcher concluded that, the overall model is statistically significant at 5% level of significant.

Furthermore, the results shows that there is positive and significant direct relationship between external auditors size and the extent of voluntary disclosure in such a way that, the use of external auditors like (Big 4) increases the extent of voluntary disclosure across manufacturing company by 0.1256 index, holding other factors constant. Moreover, the findings has indicated that, there is an existence of negative but insignificant relationship between the size of audit committee and the extent of evoluntary information disclosure across the manufacturing alied. Also, there is a positive and significant relationship between companies' capital structure and extent of volunatry information disclosure in such a way that, a unit increase in capital structure lead to 0.2106 increase in voluntary inforamtion disclosure, holding other factors constant. Similarly, firm profitability level despite having a positive relationship with the extent of voluntary information disclosure, the result was statistically insignificant during the study period. This validated that, there is no enough evidence from the population that, a company profitability would result to increase in extent of voluntary information disclosure.

In addition to this, the researcher observed the positive and significant relationship between shareholder's structure and voluntary information disclosure whereby a unit increase in shareholder’s structure would leads to 0.7292 increase in extent of voluntary information disclosure holding other factors constant. Nevertheless, there is a positive, however insignificant relationship between firm size and extent of volunatry information disclosure across manufacturing alied.

5. Conclusion

The study concluded that, external audit size, capital structure and shareholders structure were positive and significant predictors of voluntary information disclosure among manufacturing companies allied in such a way that a unit increase in each of, external audit size, capital structure and shareholders structure lead to 0.1256, 0.2106 and 0.7292 increase in voluntary disclosure respectively, holding other factors constant, while audit committee, firm size and profitability were not significant predictors of company’s voluntary information disclosure in the manufacturing companies listed in the DSE.

6. Recommendations

The study recommends that since there is significant relationship between extent of voluntary disclosure and capital structure, auditors’ size and shareholding structure, managers in organizations need to disclose more information voluntarily not only for the purposes of positive relationship rather because voluntary disclosure of information increases transparency and accountability in annual reporting.

Furthermore, the study recommends that, despite profitability and other factors present insignificant results from the study, companies with larger profits are more vulnerable to regulatory intervention, investor attraction and therefore they should be more interested in disclosing detailed information in their annual reports to justify their financial performance.

The study also recommends for well-balanced capital structure, shareholding mix and use of reputable auditors to enhance more voluntary disclosure for the interest of the business and annual report users.

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