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TRANSPARENCY AND DISCLOSURE INDICES IN EMERGING MARKETS

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Abstract

ITransparency is the extent to which investors have ready access to any required financial and non-financial information about a company. In this paper we focus on transparency models that have used in developing and developed countries by researchers and compare the area of attention that these two groups of researchers had in their transparency and disclosure models. Finally, we compare the transparency and disclosure scores that computed by researchers in developing and developed countries. Results show that disclosure and transparency models conducted in developed and developing countries are not significantly different in aspect of the number of components of disclosure and amount of attention that these models pay to various disclosure areas. However, based on their disclosure scores, transparency level of firms in developed countries is higher than in developing countries.

Keywords: TRANSPARENCY, DISCLOSURE, EMERGING MARKETS

1.   Introduction

Since, the 1960s there has been an increased interest in transparency and disclosure research. In majority of these studies, a self-constructed index has used to measure level of transparency of a sample of firms. Some different approaches for measuring level of disclosure and transparency have emerged in the literature. The first and foremost approach is primarily based on sending questionnaire forms to a number of financial accounting users requesting them to rank specified disclosure items in accordance with their degree of importance for decision-making processes. Others select important disclosure items based on a deep study of disclosure literature. The third approach used to determine disclosure index items is investigation of financial statements and other source of information and then select the most common and important items disclosed.

In addition, some studies address the association between a constructed disclosure index of mandatory, voluntary or total accounting disclosure and certain firm characteristics. As the approach of constructing transparency index in different studies is different, the number of items in indices, the categories considered in indices and the area of information they notice and therefore level of transparency that they report is different too. In this study we to compare some of these indices and show which area and categories of information are considered. Also we try to

compare the result of measuring level of transparency and disclosure in some research in emerging markets.

2.   Transparency and disclosure

There are different definitions of transparency and disclosure and each definition consider a different aspect of disclosure. For example Lee (2012) believes that disclosure and transparency refers to accurate and timely release of information about the business strategy, financial performance and corporate governance to the general public by a company. Gibbins, Richardson and Waterhouse (1990, 122) defined financial disclosure as any deliberate release of financial (and non-financial) information, whether numerical or qualitative, required or voluntary, or via formal or informal channels. Patel and Dallas 2002 believe that transparency is an important element of corporate governance and state that Good corporate governance includes a vigilant board of directors, timely and adequate disclosure of financial information, meaningful disclosure about the board and management process, and a transparent ownership structure identifying any conflicts of interests between managers, directors, shareholders, and other related parties.

3.   Disclosure indices

The debate on the importance of disclosure continues to date. Disclosure is a theoretical concept that is difficult to measure directly (Hassan and Marston 2010). Identify the difficulty in measuring the extent of voluntary disclosure and the lack of replicability of the few measures developed by academics as the major limitations in the empirical studies (Healy & Palepu 2001). The literature on disclosure, offers a variety of potential proxies that purport to measure disclosure.

3.1.   *Approach for Conduct indices*

Some different approaches for measuring level of disclosure and transparency have emerged in the literature. The first approach is primarily based on sending questionnaire or doing interview with a number of financial accounting users requesting them to rank specified disclosure items in accordance with their degree of importance for decision-making processes. For example Buzby, 1974; Firth, 1978; Chandra, 1974; Turkey, 1985; Lee, 2012; Naser & Nuseibeh, 2003; Ho and Wong, 2001 used this method. Hassan and Marston 2010, claim that the most common example of using disclosure survey is the results of two surveys conducted by the Financial Analysts Federation (FAF) / the Association for Investment Management and Research8 (AIMR) which have been used as proxies for disclosure quantity and quality in a number of prior studies (see, for example, Lang and Lundholm, 1996; Sengupta, 1998; Healy, Hutton and Palepu, 1999; Botosan and Plumlee, 2002). Second approach is based on a deep study of disclosure literature and selection of important disclosure items based on it. For example botosan (1997) mentions that The selection of items included in her paper index was guided by recommendations provided in the American Institute of Certified Public Accountants (1994) study of business reporting (i.e., the Jenkins Committee report), the SRI International (1987) survey of investor information needs, and the Canadian Institute of Chartered Accountants (1991) study of the annual report. The third

approach used to determine disclosure index items is investigating financial statements and other source of information and then select the most common and important items disclosed.

3.2.   Area of disclosure

The second difference is on the areas on which the models cover. Considering different researchers use different methods to determine the components of disclosure indices, and consider different aspects of the disclosure ‹Groups or categories of information that constitute different models and different .The most common areas of interest have been disclosed in various models include the followings: financial information, ownership structure, general and strategic information, corporate governance information, board and management structure, acquisition and disposal information, forward looking information, projected information and social responsibility information.

3.3.   Weight of items

The literature on the use of indexes is divided to unweight and weighted indexes. Those who use the weighted index believe that such a score reflects both the extent and importance of each disclosure item that forms the index (for example Robbins & Austin, 1986; Botosan, 1997; Buzby, 1974b; Choi, 1973; Chow and Wong-Boren, 1987; Eng et al., 2001; Firer and Meth, 1986; Firth, 1984; McNally et al., 1982; Singhvi and Desai, 1971; Stanga, 1976, Naser & Nuseibeh 2003; Ho and Wong 2001). The determination of weight is usually based on the perceived relative importance of selected items by a user group such as investors (Cerf, 1961; Singhvi&Desai, 1971).

 Alternatively, an unweight index scores each item equally. Users of this kind of indexes contend that the weighting does not significantly alter the results (Chow & Wong- Boren, 1987; Wallace & Naser, 1995), or believe that using an unweight index reduce subjectivity in determining weights. This approach has become the norm in annual report studies (examples for using unweigh indexes are Cooke, 1991; Cooke, 1989; Hossain et al., 1994; Owusu-Ansah, 1998;Raffournier, 1995, Francisco, 2009; Gray et al, 1995; Wang et al, 2008; Courtis, 1996).

 However some researchers have used both method and obtained the same results under the unweight and weighted indexes (Chow and Wong-Boren, 1987; Robbins and Austin, 1986; Coombs & Tayib, 1998; Robin 1986, chow & Wong 1987; Zarzeski 1996. Naser & Nuseibeh 2003)

4.   Comparison transparency models in the developed and developing countries

Considering that the transparency models had different groups of Items, to compare these groups we had to define a common grouping and study all of the models on the basis of that grouping. In this section a matrix was developed. This matrix is based on the dimensions of the transparency models in different countries. In the next step the transparency items are classified into 27 groups. Then average number of the items considered in the models for developing and developed countries were compared. Also, the average number of components considered for each group in

developing and developed countries were compared. Finally, we compare the transparency and disclosure scores in developing and developed countries.

4.1.   Comparison the number of components in the model of transparency for Developing and developed countries models

This comparison shows that average number of components in the models conducted in Developing and developed countries isn't significantly different. As it shows in table 1, the average number of components per group for developed countries is 1.68 and for developing countries is 1.53. However, we found that the number of components in some groups is significantly different from each other.

4.2.   Comparison different groups in developing and developed countries models

The results for test of Comparison (table 2) showed that from 27 groups that we investigated, 6 groups of disclosure items are significantly different in developing and developed countries models. In three groups, developing countries pay more attention compared to the developed countries. These areas are information about CEO, Board of directors, Top managers, information about Salaries, reward and performance-related pay to CEO, board of directors and managers and disclosure characteristics and quality of disclosure. For example, the average number of components that must be disclosed in the group of Information about CEO, Board of directors, Top managers is 5.89 for developing countries, and is 1.56 for developed countries.

On the contrary, in the case of groups of information about produce and sale of products, information about Capital expenditure and develop projects and information about financing and off balance sheet financing developed countries have focused more. For example, the average number of components in information about produce and sale of product in developing and developed countries models Is 1.78 and 4.89 respectively.

5.   Level of disclosure and transparency in developed and developing countries

Table 3 shows investigated studies that conducted by researchers in some developing countries. Researchers have measured the disclosure scores of a number of firms in their countries by self-conducted disclosure models. The number of companies that their disclosure scores were computed and the results of their scoring include mean, median, standard deviation, maximum and minimum disclosures made by companies has been shown in this table.

Table 4 shows the same items for studies that conducted by researchers in some developed countries. Researchers have measured the disclosure scores of a number of firms in their countries by self- conducted disclosure models.

 To understand the level of disclosure by companies in developing countries and developed countries are significantly different from each other or not, a statistical test were used. Test results show that the average scores of corporate disclosure in developing countries and developed countries، are significantly different in 90% confidence level (10% error). This means

that the level of disclosure in developed countries have been significantly more than in developing countries.

6.   Conclusion

Results show that disclosure and transparency models conducted in developed and developing countries are not significantly different in regard to the number of components of disclosure and amount of attention that these models pay to various disclosure areas.

However, from a practical point of view, firms in developed countries have exposed more information. In other words information transparency level of firms in developed countries is higher than in developing countries.

Indeed, in developing countries weaknesses have been in the area of non-financial information . Thus companies are required to disclose more information, particularly non-financial information.

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APPENDIX:

df	UCL	LCL	SP	Standard Deviation		Mean		Number of Groups
				Developing Countries	Developed Countries	Developing Countries	Developed Countries	
52	0.74	-0.44	1.29	1.22	1.37	1.53	1.68	27

Table 1: comparison the number of components transparency models for developing and developed countries

df	UCL	LCL	SP	Standard Deviation		Mean		Number of Countries	Disclosure Area
				Developing Countries	Developed Countries	Developing Countries	Developed Countries		
16	-1.43	-7.24	3.53	4.51	2.13	5.89	1.56	18	**Information about: CEO, Board of directors, Top managers**
	-0.44	-3.34	1.76	2.39	0.71	2.22	0.33		**Information about: Salaries, reward and performance- related pay to CEO, board of directors and managers**
	-0.08	-1.92	1.12	1.41	0.71	1.33	0.33		**Disclosure characteristics and quality of disclosure**
	5.44	0.78	2.83	2.54	3.10	1.78	4.89		**Information about produce and sale of products**
	2.32	0.13	1.33	0.88	1.66	1.44	2.67		**Information about Capital expenditure and develop projects**
	0.62	0.04	0.35	0.00	0.50	0.00	0.33		**Financing and Off balance sheet financing**

Table 2: The mean number of components in the exposed groups that have statistically significant differences

Max	Min	SD	Median	Mean	Number of Firms	Year	Country	Author
								Developing Countries
76	2	15.8	N	37.58	87	1997	Greece	**Leventis and Weetman (2004)**
71.43	16.19	11.1	N	41.11	52	2003	Turkey	**Aksu and Kosedag (2006)**
55	20	9.02	N	34.71	38	2002-2003	India	**Hossain and Reaz (2007)**
67	20	10.6	N	36.84	25	2007	Qatar	**Hossain and Hammami (2009)**
70.2	10	15.1	30	33	40	2003	Saudi Arabia	**Alsaeed (2006)**
32	4	9	N	16	62	1997	Singapore	**Chau and Gray (2002)**
40	3.8	9.9	N	18.5	60	1997	Hong Kong	**Chau and Gray (2002)**
49	0	15.1	28	25.61	300	2001	China	**Xiao et al (2004)**
75.68	35.14	8.94	N	53.2	105	2002	Malaysia	**Akhtaruddin et al (2009)**
36	4	6	18	18	109	2005	China	**wang et al (2008)**
85	5	15	N	29	98	1997	Hong Kong	**Ho and Wong (2001)**
66	2	9.6	21	21.75	158	1995	Singapore	**Eng and Mak (2003)**
87	55	8	N	72	80	1991	Hong Kong	**Wallace & Naser (1995)**
74	6.3	N	N	31.4	87	2001	Malaysia	**nazli et al (2006)**
								N: Not given

Table 3: Level of disclosure and transparency in the companies in developing countries

Max	Min	SD	Median	Mean	Number of Firms	Year	Country	Author
								Developed Countries
64.61	7.69	12.9	26	29.02	102	1995	France	**Depoers (2000)**
N	N	7	80	80	35	2009	Spain	**Turrent and Ariza (2011)**
55	2	11	N	18	55	1991	New Zealand	**Hossain et al (1995)**
18	1	2	12	14.8	245	1991 - 1995	New Zealand	**Hossain et al (2005)**
76.7	47.3	6.9	56.3	57.8	313	1968 - 1990	USA	**Belkaoui (2001)**
73.9	14.5	12.5	N	47.7	138	1989 - 1991	Spain	**Inchausti (1997)**
41	7	9	N	20	100	1988	Japan	**cooke (1992)**
77	39	6	55	54.3	161	1996	Netherland	**cooke (2002)**
77	36	5	60	58.7	161	1996	UK	**cooke (2002)**
44.85	1.47	8.13	18.38	19.38	257	2000 - 2001	Spain	**Garcia and Martinez (2005)**
N: Not given								

Table 4: Level of disclosure and transparency in the companies in developed countries

df	UCL	LCL	SP	Standard deviation		Mean		Number of Research
				Developing Countries	Developed Countries	Developing Countries	Developed Countries	
21	-2.12	-25.63	16.16	10.63	21.42	30.52	44.39	23

Table 5: Comparisons level of disclosure by companies in developing and developed countries