FIRM SPECIFIC CHARACTERISTICS AND VOLUNTARY DISCLOSURE: EVIDENCE FROM A DEVELOPING COUNTRY

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Abstract

This paper assesses the levels of voluntary disclosure in the annual reports of companies in Sri Lanka, a developing country, and identifies firm-specific characteristics that impact on voluntary disclosure of the listed companies in Sri Lanka. Eight variables, representing firm specific characteristics, were tested to assess the levels of disclosure of 100 listed companies. The study adopts a disclosure checklist consists with 20 variables to identify the levels of disclosure. The relationship between firm specific characteristics and the level of disclosure was examined using unranked Ordinary Least Square approach. The findings of the study were analyzed using a stakeholder theory perspective, which attempts to explain why management will meet the expectations of certain stakeholders, typically those in a position of power or influence. Findings reveal that four variables namely firm size, profit margin, leverage and audit firm size are positively and significantly associated with the level of disclosure. This means that large size companies have more interest in disclosing additional information as compared to small size companies. Further, firms with a high profit margin disclose more information than firms with a low profit margin. Moreover, debt capital holders and large audit firms have more influence to encourage companies to disclose voluntary information. The results of this study are useful for the managers and investment community to assist in evaluating the extent of voluntary disclosure by Sri Lankan listed companies and explaining the variation of disclosure. Further, the results provide useful insights to policy makers and regulators who may want to improve voluntary disclosures in their countries, especially in Sri Lanka.

Keywords: Voluntary disclosures, firm specific characteristics, disclosure levels, stakeholder theory

1. Introduction

The primary objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (International Accounting Standards Board, 2010). These decisions could be based, in part, on the user's assessment of the company's performance and prospects for future cash flows. Disclosures can provide a valuable source of information for that purpose. Disclosure in annual reports of companies are either mandatory or voluntary (Gunawan & Lina, 2015).

Voluntary disclosures are of growing importance in capital markets (Schuster and O'Connell 2006). According to Barrett (1977) disclosure is additional information attached to an entity's financial statements, usually as explanation for activities which have significantly influenced the entity's financial results. Disclosures communi cate relevant policies, provide clarity about significant transactions, give prominence to significant items, elimi nate duplication, and deliver meaningful, company-specific information (Bilal, et al., 2013).

In Sri Lanka, mandatory disclosures are to be presented in the financial statements in compliance with the accounting standards (LKAS) issued by the institute of chartered accountants of Sri Lanka, which is the only accredited authority that formulates Accounting and Auditing Standards in Sri Lanka (Institute of Chartered Accountants of Sri Lanka, 2020). Voluntary disclosures convey additional information provided voluntarily by companies in additional to the mandatory disclosures. Thus they provide information beyond the minimum requirements of the applicable capital market regulations (Gunawan & Lina, 2015).

The voluntary disclosure information more than mandatory disclosure, has been receiving increasing attention in recent accounting studies. Even though every company presents mandatory disclosures in compliance with the accounting standards, voluntary dis closures are also play a major role in stakeholder decision-making. Voluntary disclosure provides investors with the necessary information to make more informed decisions due to the inade quacy of compulsory information (Alsaeed, 2006).

A number of studies have been conducted in developed countries that

relates to the level of accounting disclosure to firm-specific characteristics (see, for example, Choi, 1973; Buzby, 1975; Cooke, 1992; Watts & Zimmerman, 1983; Wallace, et al., 1994; Raffournier, 1997; Mahmood, 1999; Zarzeski, 1996). However, little attention has been devoted to the association between accounting disclosure and firm-specific characteristics in developing countries. Developing and developed countries are not directly comparable. Differences exist and shape diversity in accounting practices, for example, legal systems, taxation, sources of finance, inflation, political ties, historical development, and culture. This study fills a gap in the literature by investigating two research questions relating to disclosure in the context of a developing country. The research questions are:

(1) what is the level of voluntary disclosure of listed companies in Sri Lanka? and
(2) Do firm-specific characteristics impact on voluntary disclosure of listed companies in Sri Lanka?

The potential contributions of this study are several. First, it provides empirical evidence on the impact of structure, performance, and market related variables on the voluntary disclosure of listed companies, using stakeholder theory perspectives. Second, it provides insights for managers and consultants in identifying factors that impact voluntary disclosure. There are also policy implications for investor protection bodies, and stock exchanges.

The remainder of the paper is organized as follows. Section 2 discusses the literature on voluntary disclosures and develops the hypotheses. Section 3 provides the theoretical perspective of stakeholder theory. Section 4 explains the research methods including variable selection and model development. Section 5 contains the results and discussion of those results. Section 6 Summarizes and concludes the paper.

2. Literature review and hypotheses development

An extensive body of research relating the level of accounting voluntary disclosures to firm-specific characteristics have been conducted in developed countries – the UK (Spero, 1979; Firth, 1979); the USA (Buzby, 1975; Lang & Lundholm, 1993); Canada (Belkaoui & Kahl, 1978); Sweden (Cooke, 1989); Switzerland (Raffournier, 1997); Japan (Cooke, 1992); and Hong Kong (Wallace & Naser, 1995). A smaller group of studies have examined developing countries such as Egypt (Mahmood, 1999); Jordan (Naser, et al., 2002); Nigeria (Wallace, 1987); Bangladesh

(Ahmed & Nicholls, 1994). Also, some studies have adopted a comparative approach to assess the intensity of disclosure across two or more counties (see for example, Barrett (1977), Zarzeski (1996), and Camfferman & Cooke (2002).

There are some common variables used as independent variables by different researchers. Alsaeed (2006); Wallace (1987); Wallace & Naser (1995); Camfferman & Cooke (2002); and Naser, et al., (2002) categorized their independent variables as structure related variables, market related variables and performance related variables.

Within developed counties there are different results reported for a single variable. For an example listing status is not affected to the disclosure level in USA (Buzby, 1975) but in Spain, firms listed on the Madrid and Valencia stock exchange tend to provide more information (Wallace, et al., 1994). When consider the liquidity in Sweden, firms enjoying higher liquidity are more likely to disclose more information (Cooke, 1989) but in Greece liquidity is insignificant to explaining the disclosure level (Galani et. al., 2011).

Within developing countries there are also different results from a single variable. For example, in Mexico, size of the firm is positively relating to the disclosure level (Chow & Wong-Boren, 1987) but in Bangladesh firm size is not associated with the disclosure level (Ahmed & Nicholls, 1994). The audit firm size in Jordan is positively correlated to the depth of disclosure (Naser, et al., 2002), whereas in Egypt there is no association between audit firm size and the disclosure level (Soliman, 2013).

When comparing these results from developed and developing countries, the findings are mixed. Most of the developed countries have significant positive relationship between firm size and the disclosure level (Wallace, et al., 1994; Wallace & Naser, 1995; Raffo urnier, 1997; Zarzeski, 1996) but only some of the developing countries have positive relationship between firm size and the disclosure level (Buzby, 1974) and in some developing countries, disclosure levels are not associated with the size of the firm (Ahmed & Nicholls, 1994). Further, a developed country, Hong Kong has a negative correlation between disclosure level and size of the audit firm (Wallace & Naser, 1995) but in Egypt, a developing country, there is no

significant relationship between audit firm size and the disclosure level (Soliman, 2013).

In line with the studies of Lang & Lundholm (1993), Wallace, et al. (1994), and Camfferman & Cooke (2002), the firm characteristics considered as potential proxies for the degree of variation of voluntary disclosures are categorized into three groups viz., structure-related variables, performance-related variables, and market-related variables.

2.1 Structure-related variables

Structure-related variables are thought to be fairly stable and constant over time (Lang & Lundholm ;1993, Wallace, et al., 1994). These variables are firm size, leverage and firm age.

Firm size

Size of firm is considered to be the most important determinant of voluntary disclosure. Early research studies on disclosure, investigated the association between firm size and level of voluntary disclosure.

Alsaeed (2006), Camfferman and Cooke (2002) and Wallace et al. (1994) argue that the direction of the relationship between company size and disclosure level may be either positive or negative. Negative relationship is supported by argument that large companies may be subjected to political attacks such as the threat of nationalization and those companies disclose less detail in their annual reports to reduce the likelihood of political action. On the other hand, large companies may disclose more infor mation. Much evidence from prior studies has supported the existence of a positive relationship between firm size and the extent of voluntary disclosure. Large companies tend to disclose a greater amount of information for a number of reasons, including: they are more likely subject to scrutiny by the public than small companies (Camff erman and Cooke 2002), they may reduce their cost of capital through increased disclosures (Lang & Lun dholm, 1993; Botosan, 1997); large they can disclose more information at low cost as they have resources to collect, analyze, and present extensive amounts of data (Alsaeed 2006); and the agency cost is higher for large firms because shareholders are widespread, therefore, additional disclosure helps reduce potential agency costs (Watts and Zimmerman, 1983).

Therefore, this research assumes that large firms are coerced to disclose more information than small companies. Accordingly, the following hypothesis is

formed:

H1: Large firms disclose more voluntary information than small firms.

Leverage

Creditors are important stakeholders whose power should be managed as part of the Company's stakeholder strategy (Bruggen, Vergauwen and Dao, 2009). Companies depending on debt finance, should satisfy the needs of creditors through disclosing more information about the company's performance. Therefore, voluntary disclosures are expected to increase with leverage. Accordingly, companies with high leverage levels are likely to disclose more information than those with low leverage levels. Firms with proportio nally higher debt in their structure of capital are prone to higher agency cost. Higher agency cost, suggests a positive relationship between voluntary dis closure level and the leverage (Fama and Miller 1972). Additionally, Zarzeski (1996) states that companies with higher level of debt are more likely to share private information with their creditors. Chow and Wong-Borne (1987) and Wallace et al. (1994) find no support for the predictability of debt. By contrast, Belkaoui and Kahl (1978) and Malone et al. (1993) identify leverage as a factor positively affecting the extent of voluntary disclosure. Accordingly, the following hypothesis is formed:

H2: High leveraged firms disclose more voluntary information than low leveraged firms.

Firm age

Company age has been assessed in few studies (Soliman, 2013; Galani, et al., 2011; Shehata, et al., 2014). Older companies are more likely to disclose information than new ones, because of the ease and low cost of collecting and analyzing data, presence of track records, and companies' stability in a market. For example, old companies will disclose information about research and develo pment unlike new companies that might fear competitive disadvantage which may result (Turkey 1985). Older firms might have more experience with financial reporting and hence, improve their financial reporting practices over time. Accordingly, the following hypothesis is formed:

H3: Older firms disclose more voluntary information than younger firms.

2.2 Performance related variables

Performance variables are time specific and represent information that may be of interest to accounting information users (Wallace, Naser et al. 1994). Consistent with prior studies, this study includes profit margin, return on equity, and liquidity as performance-related measures.

Profit margin and return on equity

There is a general proposition that a company's willingness to disclose information is positively related to its profitability. Stakeholder theory indi cates that high profit firms disclose further information to satisfy stake holders. Management of a profitable company discloses more information to the public to promote a positive impression of its performance (Soliman 2013). By contrast, management experiencing low profitability may feel threatened and wish to obscure poor results by disclosing less information (Richard 1992).

Profit margin is calculated by dividing operating profit by net sales, while return on equity is derived by dividing net income by the book value of equity (Singhvi and Desai 1971). The association between profitability and voluntary disclosure provides differing results. According to Alfraih & Abdullah (2014); Naser, et al., (2002); Soliman (2013), there is a significant positive relationship between profitability and the voluntary disclosures in annual reports. By contrast, the profitability negatively affects the extent of voluntary dis closures (Wallace and Naser 1995). Further, profitability is insignificant in relation to the extent of voluntary disclosures in annual reports (Wallace, et al., 1994; Raffournier, 1997; Alsaeed, 2006; Galani, et al., 2011). However, most research records a significant positive relationship between profita bility and voluntary disclosures. Accordingly, the following hypothesis is formed:

H4: Firms with higher profit margins disclose more voluntary information than those with lower profit margins.

There are differing associations between return on equity and voluntary disclosures. Wallace, et al., (1994) finds there is a significant positive relationship between return on equity and the voluntary disclosures. Wallace & Naser, (1995); Alsaeed, (2006); Naser, et al., (2002) observe no significant relation ship between the comprehensiveness of disclosures and return on equity. Accordingly, the following hypothesis is formed:

H5: Firms with higher return on equity disclose more voluntary information than those with lower return on equity.

Liquidity

Liquidity is a significant firm characte ristic which has great impact on corporate disclosure level (Alsaeed 2006). According to Alsaeed (2006), liquidity is the ability of a company to

satisfy its short-term liabilities. Cooke (1989) states that firms having high liquidity enjoy a sound financial position and tend to disclose more information than those suffering with low liquidity.

Empirical evidence on the relationship is puzzling. For example, Belkaoui and Kahl (1978) find no relationship existing between liquidity and the extent of disclosure. Conversely, Wallace et al. (1994) observe a significantly negative relationship. In a subsequent study, Camfferman and Cooke (2002) report that the liquidity of Dutch firms is significantly positively related to the extent of disclosure, while the relationship is insignificantly negatively correlated for UK firms. Accordingly, the following hypothesis is formed:

H6: Firms with higher liquidity disclose more voluntary information than those with lower liquidity.

2.3 Market related variables

Market variables can be either time-period specific or relatively stable over time. They may be under or out of the control of the firm (Wallace, Naser et al. 1994). Typically, market-related variables are dichotomous in nature; that is, firms are grouped into two values (yes/no). In accordance with prior studies, this paper adopts two market variables, industry type and audit firm size.

Industry type

Aljifri, et al. (2014) argue that corporate disclosure practices vary among firms because of their industry-specific chara cteristics. Belkaoui & Kahl, (1978) contend that firms' corporate disclosure practices are likely to vary across different industry types and suggest that the nature or importance of an industry type to either investors or the country might explain differences in corporate disclosure levels across industries.

Cooke (1989) draws attention to the likelihood that leading firms operating in a particular industry could produce a bandwagon effect on the level of disclosure adopted by other firms working in the same industry. Additi onally, Wallace et al. (1994) suggests that disclosure level is more likely to differ among different industries, reflecting their unique characteristics. Cooke (1992) examines the relationship and finds Japanese manufacturing firms tend to provide more information than non-manufacturing firms.

Camfferman and Cooke (2002) provide evidence of a positive impact from industry type on level of information disclosure for manufacturing firms in the UK and the Netherlands. By contrast, Wallace et al. (1994) observe that the industrial classification of a firm has no

bearing on the level of disclosure level. Accordingly, the following hypothesis is formed:

H7: Firms in the manufacturing industry disclose more voluntary information than those in the non-manufacturing industry.

Audit firm size

Audit firm size is also used to examine the determinants of firm disclosures. Size of audit firm plays an important role in defining the disclosure policy of com panies (Craswell and Taylor 1992). Patton & Zelenka, (1997), argue that the extent and quality of corporate disclosure are related to the quality of the auditor, proxied by size. Audit firms are primarily divided into large (Big 4) and small (not Big 4). Large audit firms are widely spread across the world while small audit firms operate locally. The classification of audit firms into two groups draws on the assumption that large firms have more concern for their reputation and therefore, are more willing to associate with firms that disclose more information in their published financial reports. On the other hand, small audit firms do not possess the power to influence the disclosure practice of their clients. Rather, they attempt to meet the needs of their clients to retain them (Firth, 1979; Wallace and Naser, 1995).

Empirical evidence of the relationship between audit firm size and firm disclosure extent is ambiguous. Craswell and Taylor (1992), Ahmed (1995), Mahmood (1999), Camfferman and Cooke (2002), and Nasser et al. (2002) observe a positively significant relation ship. Forker (1992) and Wallace et al. (1994) find the relationship to be positive but insignificant. In contrast, Wallace and Naser (1995) notice a significant negative relationship between the disclosure level and audit firm size.

Accordingly, the following hypothesis is formed:

H8: Firms audited by large audit firms disclose more voluntary information than those audited by small audit firms.

3. Stakeholder Theory

Stakeholder theory is a theory concerned with the relationship between an organization and its stakeholders. Stake holder theory conceptualizes firms as part of a broader social system. It has impacts on, and is affected by other groups within society. Stakeholder theory involves the recognition and identification of the relationship between firm behaviour and the impact on its stakeholders (Ansoff 1965, Gray et al., 1995). Information disclosure is one of the most important decisions because of its potential consequences, both positive

and negative (Frias‑Aceituno et al., 2014). Voluntary disclosure is important to assist informed decision-making by the stakeholders. A firm's activity is embedded in a network of stakeholder relationships (Darnall et al., 2010). Various stakeholders are demanding more disclosure of firm information due to their interest in the environmental issues and its related costs and liabilities (Mastrandonas and Strife 1992).

Stakeholder theory and Legitimacy theory are sometimes referred to as 'systems-oriented theories.' Within a systems-based perspective, the entity is assumed to be influenced and in turn to have influence upon, the society in which it operates (Deegan et al., 2002). Stakeholder theory (also legitimacy theory and political economy theory) is linked to the notion of the existence of a social contract between the organization and society, whereby a firm is being held responsible and accountable to its stakeholders (Gray et al., 1996). Stakeholder theory assumes that firms must meet and satisfy the information needs and interests of all stakeholders not just shareholders (Mostafa & Elfeky, 2017).

Stakeholder theory accepts that, because different stakeholder groups will have different views about how an organi zation should conduct its operations, there will be various social contracts 'negotiated' with different stakeholder groups. There are two branches of stakeholder theory: the ethical (normative) branch and the managerial (positive) branch, as for how to discharge accountability to various stakeholders. The ethical branch of stakeholder theory argues that organizations should treat all stakeholders fairly irrespective of their power. On the other hand, the managerial branch of stakeholder theory asserts that company management is expected to meet the expectations of those stake holders who are more powerful than others (Deegan, 2006). The managerial branch states that the specific stakeholder group who has greater power differs between organizations. Such power may be related to the control of limited resources, including: finance and labour, access to the media, the ability to take legislative action against the company, or the ability to influence the goods and services consumed by the company (Deegan, 2006). The positive branch advocates that the greater the importance (or power) of particular stakeholders, the greater the expectations of the stakeholders will be addressed by the management of the organization (Deegan & Samkin, 2013; Guthrie, Petty, & Ricceri, 2006). Successful organi zations are often those which can satisfy

the demands of significant or powerful stakeholders. The managerial (positive) branch of stakeholder theory explicitly refers to questions of stakeholder power, and how stakeholders' relative power affects their ability to 'coerce' the organization into complying with the stakeholders' expectations (Deegan et al., 2002). The positive perspective of stakeholder theory attempts to explain why management will meet the expectations of certain stakeholders, typically those in a position of power or influence. The theory stresses environ mental reporting helps organizations in communicating the environmental dimensions of their activities, products, and services. Environmental disclosure is therefore regarded as part of the dialogue between the firm and its stakeholders (Gray et al., 1995).

In response to stakeholder pressures, firms react by disclosing more voluntary information to preserve their image of being a stakeholder friendly legitimate firm and to avoid the negative conse quences caused by unhappy stake holders. The firm's continuity requires the support and approval of the stakeholders. The activities of the firm can be adjusted to gain that approval from stakeholders. The more powerful the stakeholders, the more the firm must adapt (Gray et al., 1995). Regarding the explanation of corporate social and environmental voluntary disclosure practices, it can be concluded that stakeholder theory explains the obser vable relationships in the real world (Donaldson and Preston 1995). Thus, stakeholder theory informs this study of disclosure practices.

4. Research Methodology

The population of the sample examined, includes listed companies of the Colombo Stock Exchange (CSE), in Sri Lanka. Banks, finance and insurance sector companies are excluded as the characteristics of their financial reports are different from those of non-financial firms. The Colombo Stock Exchange (CSE) listed 297 companies representing 20 business sectors as at 31st March 2018. Market capitalization was used as the sampling method and accordingly, companies with highest market capitalization were selected.

Further, to maintain homogeneity and prevent undue disturbances caused by fiscal year differences, firms with year-end other than March 31 were omitted. One hundred (100) non-financial companies remained to form the sample used in the analysis. The data has been collected from the 2017/2018 annual reports of those companies. Analysis was limited to one year as disclosure policies

usually tend to remain constant over time (Botosan, 1997).

4.1 Disclosure index construction

Since 1960s, there has been an increasing interest in accounting disclosure studies. Two significantly different approaches to researching accounting disclosure have emerged in the literature. The first approach was primarily based on sending questionnaire forms to a number of financial accounting users requesting them to rank specified accounting items in accordance with their degree of importance for decision-making processes (for example, Buzby, 1974; Firth, 1978; Chandra, 1974; and Turkey, 1985). The second approach addresses the asso ciation between a constructed disclosure index of mandatory, voluntary, or total accounting disclosure, and certain firm characteristics (Alsaeed, 2006). This research uses the second approach.

Previous empirical studies used dis closure check lists to collect voluntary disclosure data. One of the earlier studies conducted in the US by Singhvi & Desai (1971) is based on a 34-item disclosure checklist. Bilal et al, (2013) develops a 20 disclosure item checklist to examine the association between firm specific characteristics and voluntary dis closures. Chow & Wong-Boren (1987), develop a disclosure checklist using 24 items. Subsequently, Ahmed & Nicholls (1994), Patton & Zelenka (1997), Alsaeed (2006), and Uwulgbe & Uwalomwa (2011), use 20 disclosure items in their disclosure indexes. This research has adopts a disclosure index, as shown in the Appendix A, adapted from Alsaeed (2006).

Hossain (2008) asserts that the selection of voluntary disclosure items requires subjective judgment, depending on the nature and context of the industry and country. However, the consistency in many disclosure items can be realized across studies when checklists exa mined. The checklist of this study is constructed after examining a wide range of studies from various countries (Alsaeed, 2006; Uyar, et al., 2013; Kaya, 2014; Alfraih & Abdullah, 2014; Agyei-Mensah, 2012; Barrett, 1977; Bilal, et al., 2013; Binh, 2012; Cooke, 1989; Galani, et al., 2011; Hossain, 2008; Meek, et al., 1995; Haneh, 2009; Richard, 1992; Shehata, et al., 2014; Soliman, 2013; Spero, 1979; Wallace & Naser, 1995).

The disclosure index is constructed as a yardstick to measure the level of disclosure by the listed firms. The construction of the disclosure index is based on the information that firms supply in their annual financial reports to shareholders. According to Knutson

(1992), the annual report is the major reporting document and every other financial report is in some respect, subsidiary or supplementary to it. It is possible that other channels, such as the news on TV or in newspapers may be used to provide some information. However, reliance on such means to endeavor to transmit voluntary dis closure presents practical problems. In brief, the annual financial reports are the principal focus of the voluntary disclosure index because they are assumed to be one of the most important devices to convey information to interested parties.

The index is crafted solely for the purpose of capturing and measuring differences in disclosure practices among firms. It does not intend to specify what firms ought to disclose. The selection of items embedded into the index are guided by Meek et al. (1995), Botosan (1997) and Naser and Nuseibeh (2003).

In order to determine the disclosure level of voluntary items, earlier studies have utilized two approaches: weighted index (Botosan, 1997; Hossain, 2008; Patton & Zelenka, 2007) or unweighted index (Cooke, 1989; Meek, et al., 1995; Alsaeed, 2006; Htay, et al., 2013; Chan & Watson, 2011). The weighted disclosure index has been criticized since it may introduce a bias towards a particular user orientation (Bilal, et al., 2013) and is based on a subjective importance rating ranked by the researchers (Alsaeed 2006). In an unweighted index, each item of disclosure is considered equally important (Cooke 1989).

This study adopts an unweighted index, where 0 is awarded for item non disclosure and 1 is awarded for item disclosure. The contents of each annual report are compared to the listed items and coded as 1 if disclosed or 0 if not disclosed. For each firm, a disclosure index was computed as the ratio of the actual score given to the firm divided by the maximum score.

4.2 Model Development

Early studies applied a matched-pair statistical test to examine the difference between the mean disclosure indexes of two or more samples (Wallace, et al., 1994). Starting with Chow and Wong-Borne (1987), cross-sectional regression analysis was introduced. Later, Lang and Lundholm (1993) and Wallace et al. (1994) suggest the use of ranked ordinary least square (OLS) in case of non-linear directions and monotonic data. The ranked OLS regression is conducted after transforming continuous variables into ranked scores. Camfferman and Cooke

(2002) justify the use of unranked OLS based on the advantage of replacing the ranks by normal scores so that the resulting tests have exact statistical properties and significant levels can be determined, the F- and t-tests are meaningful, the power of the F- and t-tests may be used, and the regression coefficients derived using normal scores are meaningful. Further, the normal scores approach offers a means whereby a non-normal dependent variable may be transformed into normality, and as such, offers a further advantage over ranks.

This study favors the uses of unranked OLS approach. The model employed to test the relationship between specific-related variables and the level of disclosure is presented below:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7 + \beta 8X8 + error$$

Where Y, Disclosure index level

Structure-related variables:

X1 = Log of the book value of total assets (Sri Lankan rupees).

X2 = Debt ratio (net debt divided by total equity)

X3 = Log of the age of firm.

Performance-related variables:

X4 = Profit margin (net profit before tax divided by net sales).

X5 = Return on equity (net profit before tax divided by total equity).

X6 = Liquidity ratio (current assets divided by current liabilities).

Market-related variables:

X7 = Industry type (manufacturing 1 and non-manufacturing 0)

X8 = Audit firm size (a Big 4 audit firm 1 and 0 small audit firm)

β = Slopes of the independent variables while β0 is a constant or the value of Y when all X values are zero

error = The error term, normally distributed about a mean of 0.

5. Results and discussion

Table 1 shows descriptive statistics of key variables. There is a wide range of variation within the sample as indicated by the minimum and maximum values. As for the example, profitability values have considerable dispersion as repre sented by the minimum, maximum, and the standard deviation.

As depicted in the Table 1, the mean level of overall disclosure index is 68.5%. Ranks given to the 100 companies according to the

disclosure index were provided in Appendix B. This indicates that 58 companies (58%) have obtained disclosure index more than mean value while 42 companies (42%) have obtained

disclosure index less than mean value. The reason for high number of voluntary disclosures by Sri Lankan companies could be due to response to the powerful information seeking stakeholders that they face.

Table 1. Descriptive statistics

Correlation analysis as performed to check the multiple regression. The correlation matrix is a

	INDEX	SIZE	DEBT	AGE	PROFIT	ROE	LIQUI	INDU	AUDIT
Mean	0.685000	8.453692	1.332412	1.567914	0.277227	0.147316	2.727945	0.150000	0.970000
Median	0.725000	7.779194	0.741723	1.568202	0.092412	0.122088	1.226947	0.000000	1.000000
Maximum	0.950000	11.31423	18.72548	2.195900	8.640865	1.282157	46.47356	1.000000	1.000000
Minimum	0.350000	5.201959	-0.409868	0.845098	-0.810211	-1.095208	0.206104	0.000000	0.000000
Std. Dev.	0.148477	1.445951	2.315287	0.296374	0.916142	0.252259	5.607970	0.358870	0.171447
Skewness	-0.524770	0.212448	5.088023	-0.034222	7.781690	0.097759	5.613742	1.960392	-5.510378
Kurtosis	2.441772	1.638741	35.19312	2.755200	71.03251	13.59235	40.10651	4.843137	31.36426
Jarque-Bera	5.888137	8.473173	4749.787	0.269216	20294.34	467.6507	6262.289	78.20710	3858.285
Probability	0.052651	0.014457	0.000000	0.874059	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	68.50000	845.3692	133.2412	156.7914	27.72274	14.73164	272.7945	15.00000	97.00000
Sum Sq. Dev.	2.182500	206.9867	530.6946	8.695927	83.09239	6.299816	3113.483	12.75000	2.910000
Observations	100	100	100	100	100	100	100	100	100

multi-collinearity among the explanatory independent variables. It means that the situation where two or more of the independent variables are highly correlated can have damaging effects on the results of multiple regression. The correlation matrix is a powerful tool for getting a rough idea of the relationship between predictors. As displayed in Table 02, there is no multi-collinearity in the data.

Table 2. Correlation analysis

Covariance Analysis: Ordinary
Date: 12/05/18 Time: 06:47
Sample: 1 100
Included observations: 100

Correlation t-Statistic Probability	INDEX	SIZE	DEBT	AGE	PROFIT	LIQUIDITY	ROE	INDUSTRY	AUDIT
INDEX	1.000000								
SIZE	0.480099	1.000000							
	5.417991	-----							
	0.0000	-----							
DEBT	0.382970	0.279226	1.000000						
	4.104101	2.878690	-----						
	0.0001	0.0049	-----						
AGE	-0.061910	-0.022554	-0.038679	1.000000					
	-0.614055	-0.223329	-0.383184	-----					
	0.5406	0.8237	0.7024	-----					
PROFIT	0.401033	0.393181	0.185244	0.075917	1.000000				
	4.333789	4.233235	1.866122	0.753713	-----				
	0.0000	0.0001	0.0650	0.4528	-----				
LIQUIDITY	-0.132564	-0.134971	-0.025672	0.079241	-0.061110	1.000000			
	-1.323998	-1.348488	-0.254219	0.786925	-0.606095	-----			
	0.1886	0.1806	0.7999	0.4332	0.5459	-----			
ROE	0.122938	0.207116	0.123585	-0.061073	0.068441	-0.052309	1.000000		
	1.226330	2.095785	1.232877	-0.605718	0.679127	-0.518547	-----		
	0.2230	0.0387	0.2206	0.5461	0.4987	0.6052	-----		
INDUSTRY	-0.033175	-0.106753	-0.065470	-0.180750	-0.065404	-0.028725	0.125901	1.000000	
	-0.328593	-1.062872	-0.649518	-1.819300	-0.648851	-0.284483	1.256358	-----	
	0.7432	0.2905	0.5175	0.0719	0.5180	0.7766	0.2120	-----	
AUDIT	0.021824	0.009727	-0.433003	2.12E-05	-0.044191	-0.079921	0.088856	0.073877	1.000000
	0.216100	0.096294	-4.755428	0.000210	-0.437898	-0.793712	0.883123	0.733352	-----
	0.8294	0.9235	0.0000	0.9998	0.6624	0.4293	0.3793	0.4651	-----

Table 3 summarizes the results of OLS regression analysis. It is evident that the F-value is 6.743 (p= 0.001), indicating the model is statistically significant. Moreover, the adjusted value of the determination coefficient (Adj.R2) is 0.3169, meaning the independent variables explain 32% of total variation in the voluntary disclosure index.

Table 3. Regression analysis

Dependent Variable: INDEX
Method: Least Squares
Sample: 1 100
Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.300987	0.130529	2.305892	0.0234
SIZE	0.029740	0.009880	3.010053	0.0034
DEBT	0.021257	0.006307	3.370319	0.0011
AGE	-0.027542	0.042692	-0.645132	0.5205
PROFIT	0.038289	0.014767	2.592794	0.0111
LIQUIDITY	-0.001408	0.002235	-0.630030	0.5303
ROE	-0.009962	0.051150	-0.194764	0.8460
INDUSTRY	0.005396	0.035635	0.151422	0.8800
AUDIT	0.146410	0.081821	1.789381	0.0769

R-squared	0.372182	Mean dependent var	0.685000
Adjusted R-squared	0.316989	S.D. dependent variable	0.148477
S.E. of regression	0.122708	Akaike information criterion	-1.272327
Sum squared resid	1.370213	Schwarz criterion	-1.037862
Log likelihood	72.61636	Hannan-Quinn criterion.	-1.177435
F-statistic	6.743311	Durbin-Watson statistic	2.112733
Prob(F-statistic)	0.000001		

As depicted in Table 3, firm size is positively and significantly correlated to the disclosure level. It means that large firms disclose more information than small ones. This finding is consistent with the findings of Buzby (1975); Firth (1979); Chow and Wong-Boren (1987); Cooke (1992); Wallace et al. (1994); Wallace and Naser (1995); Raffournier (1995); Zarzeski (1996); Alsaeed (2006); Galani et al. (2011); Uyar et al. (2013); Kaya (2014); Alfraih & Almutawa (2014); Aljifri, et al. (2014); Nasser et al. (2002); Soliman (2013). However, the finding contradicts those of Ahmed & Nicholls (1994). There are several possible reasons for the positive impact; most importantly, large firms are closely watched by investors and those firms can absorb extra costs of extra disclosure. Further, this may be because larger firms tend to disclose more voluntary information to attract more funds at a lower cost (Choi, 1973).

The main advantage of stakeholder theory is from providing a means of dealing with multiple stakeholders with multiple conflicting interests (Foster and Jonker 2005).With the increasing size of a firm, the number of stakeholders and their influence on firm's activities tend to increase. Stakeholder theory recognizes that there are a broad range of stakeholders who are interested in the behavior of companies and, conse quently, demand information about the impact of activities on the environment (Moneva and Llena 2000). To the extent that firms recognize the rights of their stakeholders, large firms tend to voluntarily report more information to meet their requests (Monteiro and Aibar‐Guzmán 2010). Therefore, larger firms with large number of stakeholders are expected to disclose more voluntary information. Hence H1, that large firms disclose more voluntary information than small firms, is accepted.

There is a positive and significant relationship between debt and disclosure index. This may be because debtors want more information from high leveraged firms than from low leveraged firms. These findings consistent with the findings of Nasser et al. (2002) and Alfraih & Abdullah (2014); but contradict the findings of Zarzeski (1996) and Uyar et al. (2013).

The more important the stakeholder to the organization, the more effort will be made to manage and manipulate this relationship. Managing such relationship can be assisted by providing more information through voluntary social and environmental disclosures, to gain the support and approval of stakeholders. Moreover, environmental issues are taken into consideration for assessing stakeholder risks and returns (Neu, Warsame et al. 1998). Debt capital providers are highly concerned about the risk and return of a firm. Therefore, they expect higher voluntary disclosure of information from firms. High leveraged firms disclose more voluntary infor mation than low leveraged firms. H2 is accepted.

Firm age coefficient shows that this variable is negatively correlated to the disclosure level and the impact is not significant. Therefore H3, that older firms disclose more voluntary infor mation than younger firms, is rejected.

Profit margin is positively and signifi cantly correlated to the disclosure level, indicating that firms with a high profit margin disclose more information than firms with a low profit margin. These results agree with Alfraih & Abdullah (2014), Naser et al (2002), and Soliman (2013). They found firms with high profit margin tend to disclose more infor mation.

Stakeholders are increasingly deman ding that organizational disclosure truly and fairly represents companies' past and future achievements (Gray 2000). Therefore, when profits and opportu nities to grow are high, stakeholders may require more information via voluntary disclosure and practice of ethics at a higher level. Stakeholder theory assumes that values are a necessary part of doing business and rejects the separation of ethics and economics (Freeman 1994). H4, that firms with higher profit margins disclose more voluntary information than firms with lower profit margins is accepted.

The coefficient of return on equity is an insignificant variable. Accordingly, firms with high return on equity do not tend to disclose more information. H5, that assumes that firms with higher return on equity disclose more voluntary information than those with lower return on equity is rejected.

The coefficient of liquidity is negatively and insignificantly correlated to the disclosure level. It shows that firms with high liquidity tend to disclose less

information. Accordingly, H6 which assumes that firms with high liquidity disclose more voluntary information than those with low liquidity, is rejected.

The coefficient of industry type shows that this variable is positively correlated to the disclosure level but not signifi cantly. Although the results are insigni ficant, the study finds that half of the selected manufacturing firms, were above the mean level on the disclosure index. This observation agrees with the findings of Wallace et al. (1994), Wallace and Naser (1995) and Naser et al. (2002). Manufacturing firms tend to disclose more voluntary information than non-manufacturing firms. Accordingly, H7, that firms in the manufacturing industry disclose more voluntary information than those in the non-manufacturing industry, is rejected through lack of significance.

The coefficient of audit firm size is positive and significant at 0.1 level. This is consistent with the findings of Mahmood (1999); Alfraih & Abdullah (2014); Ahmed & Nicholls (1994); Nasser et al. (2002). The current trend is larger audit firms coerce their clients to disclose a holistic picture of the firm by including non-financial voluntary dis closures. Large audit firms can exert influence on companies to disclose more information. H8 that assumes that firms that engage large audit firms disclose more voluntary information than those that engage small audit firms, is accepted.

The findings of this study contradict those of Wallace and Naser (1995) and Uyar et al. (2013). Their rationale lies in the possibility that the role of auditors is limited to the boundaries of mandatory information. They argue that auditors, in general, do not require their clients to report data more than what is required by the accounting standards.

6. Conclusion

This study provides insights about the effect of certain firm-specific structural, performance, and market variables on the extent of voluntary disclosure. Further, it investigates the level of voluntary disclosure contained in annual reports of listed companies in Sri Lanka. The results help explain the variation of current (and prospective) voluntary disclosure relating to the firm-specific characteristics. This study is one of the first to provide insights into how listed companies' firm specific characteristics impact on voluntary disclosure from a stakeholder theory perspective.

Using the Sri Lankan listed company data form the CSE, four hypotheses were accepted viz:

H1: Large firms disclose more voluntary information than small firms.
H2: High leveraged firms disclose more voluntary information than low leveraged firms.
H4: Firms with higher profit margins disclose more voluntary information than those with lower profit margins.
H8: Firms audited by large audit firms disclose more voluntary information than those audited by small audit firms.
Using the same data, four hypotheses were rejected viz.:
H3: Older firms disclose more voluntary information than younger firms.
H5: Firms with higher return on equity disclose more voluntary information than those with lower return on equity.
H6: Firms with higher liquidity disclose more voluntary information than those with lower liquidity.
H7: Firms in the manufacturing industry disclose more voluntary information than those in the non-manufacturing industry.

Firm size, leverage, profit margin, and audit firm size have positive and significant impacts on the disclosure index. This implies that these variables are the main voluntary disclosure drivers in Sri Lanka. When size of firms' increase, firms' activities and networks expand providing a means of dealing with multiple stakeholders with multiple conflicting interests. With the increasing size, powerful stakeholders including shareholders, coerce the firms to satisfy their information demands. This may require firms to disclose more voluntary information to enable stakeholders' informed decisions.

Higher profit margins enable expansion of firms. Stakeholder theory discards separation of ethics and economics, encouraging values in doing business. It encourages organizations to engage in more non-business activities and to voluntarily disclose those activities. Therefore, with increasing size and growing profit margins, firms are expected to disclose additional 'true and fair' voluntary information and practice ethics at a higher level.

Debt capital providers are assumed to be one of the most important and powerful stakeholders of firms. Due to this, firms need to place more effort to manage and build this relationship. Large audit firms have more influence to encourage their client firms to disclose supplementary voluntary information. Corporate voluntary environmental disclosure represents a strategy to respond to the expectations of the various stakeholders and society in general (Guthrie and Parker, 1989; Gray, Kouhy et al., 1995). Findings revealed that companies were

more responsive to the financial stake holders and regulators. Thus companies provide more information to powerful stakeholders (financial stakeholders and regulators). To successfully implement this strategy, the quantity and quality of such information must be sufficient. Companies need to disclose voluntary information regarding the environmental dimensions of their activities as a means of demonstrating the overall creation of value and being accountable to stake holders and society in general. However, as per the model estimations, firm age, liquidity, ROE, and industry type have negative but insignificant impacts on the disclosure index.

The results of this study are useful for the investment community in evaluating the extent of voluntary disclosure by Sri Lankan listed firms and explaining the variation of disclosure levels. Further, the results may be useful to policy makers and regulators who want to improve voluntary disclosures in the countries, especially in South Asian countries.

This study has several implications. The study describes characteristics that influence the voluntary disclosure of listed companies. First, practical implications include firm specific characteristics including structure, performance, and market related varia bles, that have power to influence the voluntary disclosures of listed companies. These characteristics can provide support for, or raise concerns, not only determining level of voluntary disclo sure, but also for regulators concerned with investor protection, as well as stock exchanges interested in the transparency and accountability of activities of listed companies. Second, there are social concerns and implications which arise from the findings of the study. The information that has been disclosed voluntarily has implications for the stakeholder groups who are interested in analyzing companies' reports. The third implication is related to research. The study analyzes the findings through the lens of stakeholder theory, that brings new understanding to the voluntary disclosure literature. Though the findings are derived from listed companies in a developing country, this study has some broad implications for other settings. This disclosure is voluntary in nature, however, there are pressures from shareholders, debt capital providers and big audit firms for Sri Lankan companies to disclose more voluntary information. This study is limited to a single country (Shri Lanka) and considers single year data (2017/2018).

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