THE IMPACT OF OWNERSHIP STRUCTURE ON VOLUNTARY CORPORATE DISCLOSURE IN ANNUAL REPORTS: EVIDENCE FROM FIJI

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ABSTRACT

The extent of voluntary corporate disclosure by companies in annual reports in recent years has increased due to various factors. A number of prior studies examined the relationship between ownership concentration and voluntary corporate disclosure. Their findings suggest there is less voluntary corporate disclosure in family owned and high shareholder concentrated firms. On the other hand, companies with low shareholder concentration are likely to have more voluntary corporate disclosure because of the principal to agent relationship. Though studies have examined the impact of ownership structure on the extent of voluntary disclosure, there is still a need to investigate the issue in the Pacific Island countries, such as Fiji. The ownership structure of the companies in Fiji is highly concentrated. This paper examines the relationship between ownership structure and the extent of voluntary corporate disclosure in annual reports of listed companies in Fiji. A content analysis approach suggests how the ownership structure affects the extent of voluntary corporate disclosure in Fiji.

JEL: M14, M41

KEYWORDS: Ownership Structure, Voluntary Corporate Disclosure

INTRODUCTION

Voluntary corporate disclosures have received considerable attention following the recent corporate collapses, business scandals and emerging issue concerning the protection of minority shareholders. Annual reports are a primary medium various stakeholders rely on for making decisions. Thus management, responsible for preparing the annual reports, is accountable to all the stakeholders. As a result, they should disclose all relevant information in the annual reports for stakeholders to make efficient economic decisions. In addition, increased disclosures of information, apart from the ones required by the standards and the regulators are important. These additional disclosures protect the interest of minority shareholders and ensure transparency of company's information to its interested parties. Meek, et al. (1995) define voluntary corporate disclosure as "*disclosures in excess of requirements in annual reports and other media as deemed relevant by the company management for an effective decision-making by the users of the financial reports.*" However, due to the separation of ownership and control the incentive for the management to provide additional disclosures decreases.

Prior studies have examined the impact of ownership structure on voluntary corporate disclosures in countries such as US, UK, Continental European countries, Australia, New Zealand and in the Asian markets (see, Cooke ,1991; Frost & Pownall,1994; Gray, et al.,1995; Meek, et al.,1995; Turpin & Dezoort ,1998; Hossain, et al., 1994; and Chau & Gray, 2002). Two of these studies found that in concentrated companies there were less voluntary corporate disclosures compared to dispersed companies (Chau and Gray, 2002; Hossain, et al., 1994). These studies found a positive association between wider share ownership and voluntary corporate disclosures by firms.

In a more recent study, Samaha and Dahawy (2011), note that few studies examine the disclosure practices of companies in developing economies. The current paper examines the level of voluntary corporate disclosures done by listed firms in Fiji. The South Pacific Stock Exchange (SPSE), currently highly inactive with only 16 firms listed on the exchange, is responsible for monitoring these listed firms in Fiji. These listed firms have high shareholder concentration that could have a considerable influence on the level of voluntary corporate disclosures the firms make.

The controlling shareholders in these concentrated companies mostly maximize their self-interest rather than that of the minority shareholders. Thus, there is increased emphasis on the need to ensure the protection of the interests of minority shareholders. Minority shareholders are entitled to receive all relevant information to make an informed judgment on the performance of the company. Disclosure of less voluntary information to the minority shareholders is one way controlling shareholders expropriate minority shareholders.

A major contribution of this paper to the existing literature is an examination of the extent of voluntary corporate disclosures in an economy where listed firms mainly have a highly concentrated ownership structure. The paper provides insight on the differences that exist in voluntary corporate disclosures among the shareholder concentrated companies. Overall, we find in highly concentrated companies listed on the SPSE, the level of voluntary corporate disclosures is low.

The sections that follow discuss the literature and the research methodology. The fourth section sheds light on the results and discussions. The final section concludes the paper, with the limitations of the current study and provides recommendations for future research.

LITERATURE REVIEW

Agency theory assumes a separation of ownership from control would lead to agency problems, as the agents, managers, will not always maximize the shareholder value. Agency problems theoretically arise due to divergence of interest and asymmetric information (Chrisman et al., 2004). Managers have incentives to pursue their own self-interests at the shareholder's expense (Agrawal & Knoeber, 1996). Thus, a complete contract could avert any moral hazard problems, if costless perfect information flow had existed. In that case, violation of the contract due to opportunistic behavior, would lead to severe consequences for the agent. Since a perfect complete contract is not feasible, the principal uses various incentives, punishments, bonding and the managerial processes to align the interest and the actions of management (Chrisman et al., 2004).

Consequently, to minimize the agency problems, firms incur agency costs. Fama & Jensen (1983) define agency costs as the costs of all the activities and operating systems designed to align the interests or actions of the managers with the interest of the owners. It includes the costs of structuring, monitoring and bonding a set of contracts among agents with conflicting interests (Fama & Jensen, 1983). The shareholders incur agency costs if the manager owns less than 100 percent of the equity due to management shirking and perquisite consumption (Ang et al., 2000). The managers have incentives to use the finance and other assets of the firm for their own benefit.

Monitoring costs are expenditures incurred by the principal to measure, observe and control the agent's behavior. Examples are mandatory audit costs, costs to establish management compensation plans, budget restrictions and operating rules. However, these costs are not borne by the principal and are accounted in the agent's remunerations. Poor or uncertain managers will face higher levels of monitoring compared to managers with a good reputation. Thus, as the cost of monitoring increases, the manager's remunerations decrease. Bonding also controls the agency problem. Since the agents ultimately bear the monitoring costs associated with the contracts, they will establish mechanisms to assure that they behave in the interest of the principal. Jensen & Meckling (1976) define bonding costs as the costs of establishing and complying with these mechanisms, which includes the costs of preparation of financial reports.

Consequently, agency problems can also be rooted from differences in shareholder concentration. The concentrated shareholders provide extensive monitoring over the management, as their benefits outweigh the costs of monitoring, allowing these shareholders to recoup their investment (Gillian & Starks, 2000; Shleifer & Vishny, 1986). Large controlling shareholders in companies with concentrated ownership have more voting rights and larger incentives to monitor management than the shareholders in firms with disperse ownership. Thus, monitoring efforts by the firms with concentrated ownership would reduce the principal–agent problem between the shareholders and managers (Shleifer & Vishny, 1997). Since effective monitoring activities lead to lower levels of accountability to provide various disclosures to these shareholders, less voluntary corporate disclosure is expected.

Conversely, the cost of monitoring compared to the benefits of monitoring is high for the shareholders in dispersedly owned firms. Shleifer & Vishny (1986) state that dispersed shareholders lack incentives to monitor management due to free rider problem. Thus, voluntary corporate disclosure would be higher in firms with dispersed ownership so that the principals can ensure optimization of their economic interests by effectively monitoring the agent's behavior (Chau & Gray, 2002). Hence, as dispersed shareholders do not extensively monitor the agents behavior it is expected that the managers would hold greater accountability to shareholders and would therefore provide more voluntary disclosures on the performance of the management and the business.

A number of studies show that agency costs decrease when the owner is actively involved in the daily activities. See, for example, Chrisman et al., (2004); Young et al., (2008); Hu et al., (2009); Jensen & Meckling (1976); Fama & Jensen (1983); Ang, et al., (2000).

Ownership structure is defined by block holder ownership, managerial ownership, state ownership, legal-person ownership and foreign listing/shares ownership (Huafang & Jianguo, 2007). The two types of ownership structure are shareholder concentration and dispersed ownership. Shareholder concentration occurs when a single largest shareholder owns majority of the shares while many dispersed investors own the rest. This structure is common in Continental European and emerging and developing economies such as China (Xu & Wang, 1999; Chen et al., 2005), India (Selarka, E., 2005) and Fiji (Naidu & Patel, 2009; Dharwadkar et al., 2000). On the other hand, dispersed ownership relates to many shareholders holding small proportion of shares (La Porta et al., 1999). Dispersed ownership structure is common in organizations in developed economies such as United States and United Kingdom.

Ownership structure influences the extent of voluntary corporate disclosure. The ownership structure of an organization determines the level of monitoring and thus affects the extent of voluntary disclosures (Samaha & Dahawy, 2011). To measure ownership structure, this study uses 'block holder ownership', which is the percentage of ordinary shares held by substantial shareholders. Atmaja (2009) categorized firms as closely held (concentrated) or widely held (dispersed) based on whether a single shareholder controls more than 20% of the equity in a company. Twenty percent of shareholding is sufficient for effective control and decision-making. Prior studies such as Faccio et al., (2001) and La Porta et al., (1999) also used this definition. Hence, for the current study a company is considered concentrated company if the controlling shareholder in the company holds more than twenty percent of the shares.

Managerial ownership, measured by the percentage of ordinary shares held by the CEO and Executive Directors, also influences the level of voluntary disclosure (Samaha and Dahawy, 2011). According to the entrenchment theory, higher managerial ownership would lead to lower voluntary disclosure (Fan and

Wong, 2002; Morck et al., 2005). On the other hand, greater agency problems exist when managerial ownership is low simply because the executives have higher incentives to consume the bonuses and less incentive to maximize job performance (Samaha and Dahawy, 2011). Hence, voluntary disclosure by management might increase to reduce the firm's cost of monitoring by the controlling shareholders. Samaha and Dahawy (2011) suggest that the level of voluntary disclosure will increase with the decrease in managerial ownership

Previous studies have indicated there is a negative relationship between block-holder ownership and the level of voluntary disclosure (McKinnon & Dalimunthe, 1993; Mitchell et al., 1995). Firms with concentrated ownership structure may have less voluntary corporate disclosure for various reasons. Firstly, the controlling shareholders are able to monitor the behavior of management and have access to all the relevant information and thus do not necessitate additional disclosures. Secondly, the major shareholders in concentrated firms have greater incentives to monitor the behavior of management, implying less principal to agent problem, and consequently less need for voluntary corporate disclosures. In addition, controlling shareholders can effectively decide on the accounting reporting policies adopted by the business (Fan & Wong, 2002). This implies lower voluntary disclosure because the controlling shareholders do not have incentives to act in the interest of minority shareholders.

The type of controlling shareholders also influences the voluntary disclosures. Concentrated family owned firms would have less voluntary disclosures to ensure that the outside stakeholders do not have access to company information. In addition, firms having institutions as the controlling shareholders, have less incentive for voluntary disclosure. Institutions, as major financiers, are able to access the relevant information, while the other stakeholders are unable to demand additional information. However, we expect that voluntary disclosures will be higher in institutionally owned firms when compared to family owned firms, as institutions are not directly involved in the daily operations.

Board independence also has an impact on the level of voluntary corporate disclosure. Gul & Leung (2004) found a significant positive association between voluntary segment disclosure and board independence for firms with less than 25 percent director ownership. This implies that greater board independence would lead to higher voluntary disclosures. A number of prior studies have also examined the association between corporate governance attributes and voluntary disclosures. Studies that examined the impact of corporate governance attributes on voluntary disclosures in developing countries include the work of Barako et al., (2006), Cheng & Courtenay (2006), Chau & Gray (2002), Eng & Mak (2003), Haniffa & Cooke (2002) and Ho and Wong (2001). This paper, therefore, specifically considers one key corporate governance attribute, the shareholder concentration and its association with voluntary corporate disclosure.

Another type of ownership structure is government ownership. Firms owned by governments are likely to have less voluntary disclosure because of the presence of extensive government monitoring. On the other hand, government owned corporations might have more voluntary disclosures to attract more potential investors.

It follows from the above discussions that low levels of voluntary corporate disclosure occurs in a country where the listed companies are highly concentrated. As all the companies in the South Pacific Stock Exchange are highly concentrated, this study provides insight into how the controlling shareholders in concentrated firms are able to influence the level of voluntary corporate disclosure in annual reports. The unique ownership structure in Fiji itself gives us a motivation to investigate this issue by considering the disclosures in the annual reports. Thus, the research question that the current study addresses is:

"How is the level of voluntary corporate disclosure influenced in highly concentrated firms?"

RESEARCH METHODOLOGY

This study aims to investigate the level of voluntary corporate disclosures done by the firms listed on the South Pacific Stock Exchange (SPSE), by taking a content analysis approach. Content Analysis provides an opportunity to gauge better and detailed information about the types of disclosures provided in annual reports. While previous studies examined the level of voluntary disclosures empirically, this method would not be appropriate in this study due to the small sample of listed firms in Fiji.

The Capital Markets Development Authority (CMDA) Corporate Governance Code introduced in Fiji, in the year 2008, requires all the listed companies and financial intermediaries to adhere to the principles and recommendations provided in the code on a 'if not, why not' approach. The reporting requirement in this code applies to firms with the first financial year commencing after 1st January, 2009. Hence, to carry out the content analysis we focused on 2009 and 2010 annual reports, years subsequent to the implementation of the code. The two-year period analysis would also provide insight on whether the code has any impact on the level of voluntary corporate disclosure.

This study adopts a two-tier analysis. In the first analysis, we consider 14 out of the 16 companies listed on the SPSE with the exclusion of the two international companies. The results of this study provide an overview of the companies that provide voluntary corporate disclosures in their annual reports. We classified corporate disclosures under four categories, namely, Strategic Information, Corporate Social Responsibility, other Non-Financial Information and Financial Information. In the second analysis, we examine the impact of ownership type on the level of voluntary corporate disclosures by selecting three family owned firms and three institutional owned firms. This study uses the 'number of sentences disclosed' as a measure to determine the level of voluntary corporate disclosure under each category.

RESULTS AND DISCUSSION

Table 1 below shows that the voluntary corporate disclosure by the listed firms in Fiji is very low. The analysis shows that only 6 out of 14 companies provide disclosures on strategic information and corporate social reporting (CSR). Specifically, the results indicate that only 46% of the listed companies provide strategic information and only 15% of the listed companies disclose CSR information in their annual reports. This implies that the companies do not consider it necessary to disclose information concerning the company's goals and objectives and the social and environmental practices. The companies that disclose CSR information mainly consists of institutionally owned companies. In addition, the table reveals that while companies do provide some general information about the board of directors, very few (maximum of 8) companies disclose information on the different aspects such Board of Directors (BOD) qualifications, other corporate governance practices, board committees and key executives. Moreover, the results indicate that comparatively, from the year 2009 to year 2010, the number of companies that provided voluntary corporate disclosure had increased. This increase may be due to the introduction of the CMDA code of corporate governance in 2008.

Companies do not find it necessary to disclose additional financial information in their annual reports. As shown in the table, approximately 60% of the companies disclose financial performance history and only a maximum of 46% of the companies provide financial analysis with the use of graphs and tables. Finally, the results also reveal that most of the companies that provide voluntary corporate disclosures are institutional owned. Since most listed companies in Fiji are family and institutional owned, the results in Table 1, provides the basis to analyze and compare the actual level of voluntary corporate disclosures in the annual reports of the family and institutional owned firms.

Table 1: Voluntary Corporate Disclosure in Annual Reports by Listed Firms in Fiji

Information Type	2009		2010	
	Number of Companies	Percentage of Companies	Number of Companies	Percentage of Companies
STRATEGIC INFORMATION				
General corporate information	3	23	4	31
Corporate strategy	5	38	4	31
Future prospects	6	46	4	31
CORPORATE SOCIAL REPORTING				
Environmental Information	2	15	3	20
Charitable/ Community programs	1	8	1	8
Marketplace	1	8	1	8
OTHER NON - FINANCIAL INFORMATION				
General information about BOD	14	100	14	100
BOD Qualification	2	15	2	15
Board Committees	3	23	8	62
Other Corporate governance practices	1	8	7	54
Key Executive/employee information	7	54	5	38
FINANCIAL INFORMATION				
Financial history	5	38	8	62
Financial analysis (graphs/tables)	6	46	6	46

This table shows the voluntary corporate disclosure by the 14 listed firms in Fiji, under the four categories. It shows the number of companies, which provide disclosures under the respective category and sub-categories for the two years, with the respective percentages of companies disclosing under each sub-categories.

Type of Ownership and Number of Sentences Disclosed

Tables 2-5 consider the impact of ownership type on the level of voluntary corporate disclosure classified in four categories namely strategic information, corporate social reporting, other non-financial information such as board of directors and corporate governance mechanisms and the voluntary financial information. The results from Table 2 show that the selected companies provide few sentences about their strategic information. This information is important for existing and potential shareholders to determine the company's goals, objectives and future prospects. The result could provide suggestions that the companies do not want to disclose their corporate objectives and future goals to minority stakeholders.

Table 2: Strategic Information

Firms	Number of Sentences					
	General Corporate Information		Corporate Strategy		Future Prospects	
	2009	2010	2009	2010	2009	2010
FAMILY OWNERSHIP						
1	0	0	0	0	0	0
2	0	0	0	0	1	0
3	0	0	9	9	0	0
INSTITUTIONAL OWNERSHIP						
1	2	2	4	0	0	0
2	0	0	0	0	0	0
3	0	0	0	0	3	3

This table shows the level of strategic information disclosed by the selected companies is low irrespective of the ownership type. From the firms selected for analysis two family-owned and two institutional-owned firms had provided some strategic information particularly focusing on the corporate strategy. Firms disclosed a maximum of nine sentences with respect to the strategic information.

The results on corporate social responsibility in Table 3 show that the companies place less emphasis on the CSR reporting. The companies only disclosed positive CSR information. The result implies that the companies do not consider that CSR reporting is important for the stakeholders.

Table 3: Corporate Social Reporting

Firms	Number of Sentences of Voluntary Information Disclosed			
	Social/Community Program		Environment	
	2009	2010	2009	2010
FAMILY OWNERSHIP				
1	0	0	0	0
2	0	0	0	0
3	3	1	2	2
INSTITUTIONAL OWNERSHIP				
1	0	0	0	0
2	0	0	0	0
3	0	0	0	0

This table shows the number of sentences disclosed by each firm with respect to the corporate social reporting. The level of CSR information in the annual reports is extremely low, as only one out of the six firms selected had disclosed two sentences regarding CSR. The firm that had disclosed this information was family owned.

Table 4, shows the institutional owned firms disclose more sentences regarding corporate governance than the family owned firms. The first column shows the firms that disclosed the highest number of sentences regarding the board of director's composition, responsibilities and duties. However, the institutional owned firms provided more information as evidenced by more sentences disclosed with respect to the board of directors, other sub committees and other corporate governance mechanisms. The number of sentences disclosed were higher in the year 2010 compared to year 2009. This shows that introduction of the code influenced the companies to provide higher level of disclosure to ensure compliance with the code. Furthermore, there is a lack of information regarding the board of director qualification, board committees and other corporate governance mechanisms. This raises the question about the effectiveness of the corporate governance in these firms.

Table 4: Other Non-Financial Information

Firms	Number of Sentences of Voluntary Information Disclosed											
	BOD General		BOD Qualification		Board Committees		Other CG Mechanisms		Employees		Total Number of Sentences Disclosed	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
FAMILY OWNERSHIP												
1	1	13	0	0	0	9	0	18	0	0	28	22
2	1	1	0	0	0	0	0	0	2	0	3	1
3	2	4	0	0	2	2	0	0	4	3	8	9
INSTITUTIONAL OWNERSHIP												
1	23	23	36	0	12	13	0	15	5	0	76	54
2	11	12	0	0	0	20	0	26	0	0	11	58
3	1	1	0	0	0	0	0	17	0	0	1	18

This table shows the number of sentences of voluntary information disclosed in the annual reports with respect to the board of directors and the other corporate governance mechanisms.

Moreover, the listed companies also disclose very limited voluntary financial information in their annual reports as indicated in Table 5. This may imply that the companies do not want the minority shareholders and other stakeholders to know the financial performance of the company over the years.

Table 5: Financial Information

Firms	Number of Pages of Voluntary Information Disclosed			
	Financial History		Financial Analysis (Graphs and Tables)	
	2009	2010	2009	2010
FAMILY OWNERSHIP				
1	0	2	0	0
2	0	0	0	0
3	1	1	1	1
INSTITUTIONAL OWNERSHIP				
1	1	2	2	2
2	0	0	0	0
3	1	1	1	1

This table shows that the selected companies mainly provided information on financial history over a ten-year period and financial analysis of the year with the use of graphs and tables. Two of the family owned firms and two of the institutional owned firms had provided the voluntary financial information for a maximum of two pages.

Finally, Table 6 shows the level of voluntary corporate disclosures had slightly increased from 2009 to 2010. On average family owned firms disclosed nine sentences of non-financial information in 2009 and about ¾ page of voluntary financial information. In 2010 it increased to 21 sentences and 1.3 pages respectively. On the other hand, institutional owned firms had disclosed 33 sentences of non-financial information and 1.7 pages of voluntary financial information while it increased to 45 sentences and 2 pages respectively.

Table 6: Number of Sentences and Pages of all the Categories of Voluntary Disclosures

Firm Type	Number of Sentences of Non-Financial Information (Strategic, CSR, & Other Non-Financial)		Number of Pages of Voluntary Financial Information (Financial History & Analysis)	
	2009	2010	2009	2010
FAMILY OWNERSHIP				
1	1	40	0	2
2	4	1	0	0
3	22	21	2	2
Average Sentences	***9***	***21***	***0.7***	***1.3***
INSTITUTIONAL OWNERSHIP				
1	82	56	3	4
2	11	58	0	0
3	4	21	2	2
Average sentences	***33***	***45***	***1.7***	***2***

This table shows that institutional owned firms disclosed higher level of voluntary information compared to family owned firms.

DISCUSSION

Voluntary corporate information serves as an important basis for the various stakeholders to make decisions. For example, shareholders rely on the additional information to make future investment decisions. Voluntary corporate information is also important for minority shareholders in highly concentrated firms. The availability of voluntary corporate information about the company leads to less expropriation of the minority shareholders by the controlling shareholders.

The level of voluntary corporate information in the annual reports is low as shown by the results in this study. The companies place more emphasis on providing information related to the board of director's roles and responsibilities as recommended by the CMDA code of conduct. Furthermore, firms provide less information regarding their CSR practices. The firms that that do provide CSR information only provide positive information. The reason for the firms to provide only positive information is to gain and maintain legitimacy of their operations.

The level of voluntary information increased from year 2009 to 2010. This may have been due to the implementation of the CMDA code of conduct that became effective for annual reports after 2009.

CONCLUSION AND FUTURE RESEARCH

This study examined the impact of high shareholder concentration on the level of voluntary corporate disclosure. The introduction of the corporate governance code served as the basis for selecting two years of annual reports for analysis. The results of the paper support the prior evidence that there will be lower voluntary corporate disclosure in highly concentrated firms. In addition, we found that institutional owned concentrated firms provided increased voluntary disclosures compared to family owned firms. The results also indicate companies that disclosed the highest number of sentences regarding the board of directors and other corporate governance attributes.

This study provides a major contribution to the literature by providing insights on disclosure practices when there are differences in ownership structure of listed firms. The results of this paper provide implications on management's stewardship, responsibility and accountability held towards all stakeholders. There needs to be information transparency between firms and stakeholders to ensure that minority shareholders are being informed and protected. This is an emerging issue especially in concentrated firms as revealed in the ADB report (1999). Thus, the prevalence of high shareholder concentration in Fiji, calls for enhancing the transparency of information between the principal and agent. Moreover, the results show that the introduction of the CMDA Corporate Governance Code slightly increased their level of voluntary disclosures made by these listed firms in Fiji.

This study has limitations as it only examines annual reports. Future research could incorporate other mediums of reporting to substantiate the results obtained in this study on the link between ownership structure and voluntary disclosures. An interview or questionnaire approach would provide greater insight. Since this paper was only based on the content analysis of the annual reports, future studies can consider an interview and questionnaire approach to get the response of the prepares of the annual reports. In addition, an interview of the controlling shareholders and minority shareholders would also provide their perceptions regarding voluntary disclosure practices. Future researchers could also consider the level of voluntary corporate disclosure in state owned enterprises and private enterprises. Studies can also consider voluntary corporate disclosure in other media such as the company's web sites.

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