The Determinants of Firms' Extensive Disclosure of Financial Ratios in the Annual Reports: An Empirical Investigation

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ABSTRACT

Malaysia is currently experiencing a liberal and competitive economic environment, which has led to a greater investment interest in corporate securities. Likewise, Malaysian firms are also developing strategies to attract investors, for example, through voluntary disclosure of information. Part of the voluntary disclosure information in the annual reports is financial ratios. Therefore, the information on the level of financial ratios voluntarily disclosed by Malaysian companies is of interest to prospective investors. The purpose of this study is to examine empirically the relationship between five firm-specific characteristics and the general level of financial ratios disclosure that were voluntarily disclosed by companies listed on Kuala Lumpur Stock Exchange (KLSE). In this study the *a priori* expectations are based on agency theory. The five firm-specific characteristics examined are: firm size, leverage, assets-in-place, type of auditor, and sector of the company. The results obtained from cross-sectional regression show that the firm size and company sector are significantly related to the extent of financial ratios disclosure. In contrast, assets-in-place, leverage and type of auditor are not significant explanatory variables. A study of this type would be of particular relevance to accounting policy makers because *inter alia,* it helps them in (a) understanding corporate disclosure behaviour, (b) explaining why firms adopt certain disclosure strategies, and (c) developing a coherent and acceptable set of mandatory disclosure requirement on financial ratios.

CHAPTER ONE
INTRODUCTION

1.0 INTRODUCTION

The primary purposes of financial statements are to provide information that will be useful to a wide range of users in making economic decisions. Since the users of financial statements have no access to a firm's accounting records, they depend heavily on the information disclosed in the financial statements when making judgments and decisions.

Voluntary disclosure, in the context of globalization of the world's financial markets, has received a great deal of attention in the accounting literature in recent years. Studies in this area have focused, for example on (1) the impact of foreign listing and other corporate characteristics on firms' voluntary disclosure levels (Cooke, 1991); (2) the association between financial disclosure levels and foreign stock exchange listing decisions (Biddle and Saudagaran, 1989); and (3) the characteristics of firms listing abroad (Saudagaran, 1988). Voluntary disclosures are disclosures of information in excess of requirements that represent free choices on the part of company management's to provide accounting and other information deemed relevant to the decision needs of users of their annual reports (Meek, Roberts and Gray, 1995)

Ahadiat (1993) argued that the purposes of the financial disclosure required by the accounting standard-setting bodies is to provide information that is intended to be useful to various economic agents such as investors and creditors. The degree of usefulness can be determined by the extent to which information facilitates decision-making.

According to Pankoff and Virgil (1970), the value of financial information can be evaluated in terms of historical perspectives; however, the real value will be determined by the extent to which it can assist financial accounting users in future prospects.