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Impact of Voluntary Corporate Disclosures on Investors with the Effective Corporate Governance Practices as Moderator

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ABSTRACT

The Corporate Sector is the emerging sector of the economy. It contributes to the country's GDP, creates a pool of employment opportunities, and provides a way for the investor to generate attractive returns by investing in the issues offered by the various corporate entities. The corporate sector comprises the enterprises such as corporations and joint stock companies created by the law. The statutory legislation governing this sector is the Companies Act 2013 and the key regulators are the Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI). Companies operate in society, so it has some responsibilities towards various stakeholders and society. Voluntary Corporate Disclosure is a mechanism through which companies can disclose all the relevant information (information that has the potential to influence the decisions of the investors) to the public in addition to what is required under mandatory disclosures.

Voluntary Corporate Disclosures include three main types of disclosures that are: Voluntary Strategic Disclosure, Voluntary Financial Disclosure, and Voluntary Non-Financial Disclosures. Such disclosures promote the transparency and accountability of the organization and reduce the possibility of window dressing and insider trading. This paper tries to develop a thorough understanding of voluntary corporate disclosures and its implications on investors. The approach of this study is descriptive cum causal. The study is based on the primary data collected with the help of a questionnaire based on a 5-point Likert Scale. Cronbach's Alpha was used to test the reliability of the scale. The data collected is analyzed with the help of a suitable statistical tool and presented and tabulated with the help of software named SPSS.

Keywords: *Corporate sector, Voluntary Corporate Disclosures Ministry of Corporate Affairs (MCA), SEBI, Window dressing, Insider trading.*

INTRODUCTION

In the present era, companies are exposed to intensified competitive pressures and severe challenges of information. The current business setup is purely information -driven and this information has a deep–down influence on the stakeholders and most particularly the shareholders. Hence, it is not wrong to say that disclosing only such information which is mandatorily required is not enough. Some sort of extra information beyond the mandatory one is extremely useful for the investment for building the trust of the investors. Financial statements and annual reports are the way to provide information and reduce the information gap, if any. Financial statements are not enough to reduce the information gap that exists between the information provider and the receivers. The rising financial scams become the major cause of the collapse of various long-running businesses. The sole reason behind this is the concealment of fact, false reporting, and non-disclosure. It was observed that major companies are even not fulfilling the norms of mandatory disclosures. To reduce the rising case of scams corporates are encouraged both by the statutory and accounting bodies to disclose some more information than what is mandatorily required. The company is a significant user of the natural and human resources of society. As the consumer of the scarce resource which has various alternative uses, it also upholds some responsibilities towards the stakeholders and the society. The parties who are in any way involved with the company are always interested in knowing, all such information that has the potential to influence their interest in the company.

CONCEPTUAL FRAMEWORK

Corporate disclosure (CD) acts as a medium through which the information gap if any exists in the society can be eliminated. Disclosures are the way through which the company can provide information about the activities that it has performed and which influence the stakeholder and the society as a whole. When it comes to the disclosures, the word “materiality” holds a special significance which means the information that is useful for the stakeholders. Disclosures can be mandatory or voluntary. Mandatory Corporate Disclosures (MDC) are such disclosures that the companies are bound to make. They are imposed on the company as per some statutory laws, constitutional bodies, or any regulations. Such disclosures are mandated by the company and are required to be made in any situation. However, voluntary corporate disclosure is not imposed on the company, and such disclosure is purely are matter of interest.

Voluntary Corporate Disclosures (VCD) are voluntary which means they are not directed by any statutory laws and regulations. Such disclosure only made only if the particular company is interested in doing so. They are in addition to the disclosures that are mandated by the law and orders. It includes all such information which is in any sense useful for the stakeholders most particularly the shareholders (investors) who are the actual owners of the company. It can be positive or negative information about the company. VCDs are available for internal management reporting, they may also be posted on the official website or available as a part of disclosure material in the public meeting. It was usually found that such disclosures are mostly made by companies that follow the basic principles of transparency, fairness, and responsibilities. These principles are the core element of effective corporate governance in the organization.

Corporate Governance does not work in vague rather a set of standardized principles is available and is essential to properly operate and maintain the smooth functioning of the organization. It enables a transparent and effective decision-making process through various practices and codes. It helps in creating a defensive system against corporal frauds, malpractices, or misuse of corporate privileges. It balances the interests of a company’s stakeholders like - shareholders, management executives, customers, suppliers, community, and lenders by systematically regulating and controlling the operations of the organization. Effective corporate governance practices

THEORIES ON CORPORATE DISCLOSURES

There is variation in the disclosure of voluntary information from country to country and company. However, different theories on disclosure offer expert opinions on such discrepancies.

1. **Legitimacy Theory** – This theory states that a company exists in a society and as a result of it, it has some social contracts with the society. Voluntary disclosure ensures its adherence to various compliances and ethical measures, where mandatory disclosures are not sufficient. It insists that the company should act in congruence with the social and ethical norms of society and work effectively to reduce the existence of a legitimacy gap in the organization. Legitimacy theory emphasizes disclosures of socially responsible behavior which will legitimize its position in the eyes of the stakeholders.
2. **Capital Need Theory** – The inference of the theory is that companies should disclose more information by way of voluntary disclosures when they want to raise money from the financial market or institution. It was observed that the higher the disclosures of the information the lower will be the cost of capital.
3. **Stakeholder Theory** - This theory emphasizes the importance of the stakeholders and considers them as the pillars of the corporation. The company must provide all essential information and satisfy their need for the information. The larger the firm's size, the higher the pressure from the end of stakeholders to disclose more information by the way of disclosures The core of this theory is that the company should not only involved in creating value for shareholders but also for the different groups of the person associated with the company, popularly called as a shareholder.
4. **Signalling Theory** - This theory assumes that information is not available to all and there is a high possibility of information gaps in the organization. It insists on the timely availability of all significant information through disclosures as it reduces the information gap and indicates the authenticity, quality, and true value of the business.
5. **Agency Theory** – This theory identifies the areas where the different groups have conflicting interests. The agent is the representative of the principal and is always supposed to work in the interest of the principal without considering their interest. Agency theory states that a company should disclose extra information by way of voluntary disclosures to minimize the agency cost that arises because of the competitiveness between management and shareholders.

REVIEW OF LITERATURE

(Farvaque et al., 2011) This study reviewed the previous work that has already been done on corporate disclosures (CD). It was found that a systematic disclosure benefits the shareholders but it often leads to a massive cost and pernicious effect on the company. Disclosures also generate information costs because sometimes the information that is made available to the public via disclosures is false, manipulative, and complex and creates the illusion of knowledge among the investors. Selecting and providing such sort of information which is productive for the investors involves a great deal of work and pressure. However, it was also pointed out that by improving the quality of the disclosures and laying impetus to effective governance practices, solutions to various problems can be ensured.

(Gunawan & Lina, 2015) The study examined the impact of voluntary disclosures (VD) and mandatory disclosures (MD) on the investor's decisions about 38 manufacturing corporations listed on the Indonesia stock exchange. It was found that MD partially affects the decisions of the investors. However, when considered simultaneously with the VD it significantly affects the perception of the investor. It observed that MD, VD, and cash generated from operating, investing, and financing activities influence the trading volume of the investors. The revenue earned through operating, investing, and financial actions are the less reliable measures to analyze the variations in stock trading volumes in the future.

(Sahore & Verma, 2017) This study found that corporate disclosures (CD) play a significant role in addressing the issues that arise because of the asymmetry in information and agency cost of the firm. Voluntary disclosures are in addition to the mandatory ones. Regression analysis was used to identify the relationship between the variables. It analyses the impact of Voluntary Financial Disclosures (VFD)and Voluntary Non -Financial Disclosures (VNFD) on stock prices. The correlation between VFD, VNFD, and stock return is not found to be different between manufacturing and non-manufacturing companies. However, when both sectors are jointly considered, the correlation between both variables is found to be significant. The observation of the trends shows that CD is increasingly becoming significant in affecting the stock returns. It also reduces the information gaps and enhances the confidence of the investors by developing a feeling of protection among them.

(Theebeh,2018) The study analyzed the impact of Voluntary accounting disclosures (VAD) in the financial reports on the investment decision of the investors for a company listed on the Amman stock exchange with the help of analytical cum descriptive approach. It was found that VAD affects the rationality of the investors regarding when to invest, hold, or sell any securities. The forecast of the profit is the most significant accounting disclosure for investors. The information about the employees of the company is the most relevant non-financial information along with that sectoral information also influences the decisions of the investors.

OBJECTIVES OF THE STUDY

1. To develop insight into voluntary corporate disclosure (VCD) and its elements.
2. To understand the different theories on corporate disclosures (CD).
3. To analyze the impact of voluntary corporate disclosure (VCD) on the decision of investors.
4. To analyze the impact of effective corporate governance practices (ECGP) as a moderator.

HYPOTHESES OF THE STUDY

$H_{a.1}$: Voluntary Corporate Disclosures (VCD) have a significant influence on the decisions of the investors (DOI).

$H_{a.2}$: Effective corporate governance practices (ECGP) have a significant influence on the decisions of investors (DOI).

$H_{a.3}$: Effective corporate governance practices (ECGP) moderate the impact of voluntary corporate disclosures on the decisions of investors (DOI).

RESEARCH METHODOLOGY

This study should consist of a dependent variable DOI (Decisions of investors), an independent variable VCD (Voluntary corporate disclosures), and a moderating variable ECGP (Effective corporate governance practices).

The research is based on primary data. The data is collected with the help of a structured questionnaire based on the 5-point Likert Scale. The sample size of the study is 150 respondents who are investors of different age groups.

The reliability test is done with the help of Cronbach's Alpha. Data will be analyzed by using Multiple Regression Analysis and Moderation Analysis (using Hayes process macros). Analysis and Tabulation of the data was performed with the software named SPSS.

ANALYSIS AND INTERPRETATION

Table.1 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	**N of Items**
.897	13

The reliability of the questionnaire is checked with the help of Cronbach's Alpha. From Table 1 it was observed that the reliability value is 0.897. It can be concluded that all of the variables were reliable, indicating a high level of internal consistency between the items on the scale as the values obtained are more than the standard value of 0.7.

- **Moderation Analysis**

Table.2 Model Summary

MODEL SUMMARY						
R	**R-sq**	**MSE**	**F**	**Df1**	**Df2**	**p**
.8230	.6744	.1652	102.1940	3.0000	146.000	.0000

Table 2 provides information about the model summary obtained by conducting regression analysis. The coefficient of correlation **(R)** is .8230, depicting a high degree of positive correlation among the variables. The obtained value of R^2 is **0.621**, which indicates that **62.1%** of the variation in the dependent variable [DOI]is explained by the independent variables [VCD] considered under the model. The value of adjusted R^2 is 0. 6744. The F statistics value is 102.19 which shows whether the variance explained by the model is significantly greater than the explained variance or not. The p-value is **0.000** which is less than **0.05** indicating that the overall regression model is statistically significant.

Table.3 Coefficient

Summary of Moderation Regression Analysis Predicting the Decisions of Investors						
	coeff	**se**	**t**	**P**	**LLCI**	**ULCI**
constant	.7628	.3156	2.4172	.0169	.1391	1.3865
VCD[(a)]	.0706	.0693	1.0183	.3102	-.0664	.2076
ECGP(b)	-.1636	.1691	-.9674	.3350	-.4978	.1706
Int_1 [(a*b)]	.0789	.0307	2.5722	.0111	.0183	.1395

From the **Table.3**, it was found that the constant term is **0.7628**, which represents the predicted value of DOI when both VCD and ECGP are zero. VCD has a coefficient of 0.0706 indicating a positive relation but it is not statistically significant as the p-value is **.3102** (p > 0.05). ECGP (which is a moderator) has a coefficient of -0.1636 which shows that there is a negative between ECGP and DOI. It is also not statistically significant as the p-value is 0.3350 (**p > 0.05**).

Table.4 Test of Interaction (a*b):

Interaction Effect					
Interaction	**R-sq**	**F**	**df1**	**df2**	**p**
Int_1 (a*b)	0.416	6.6163	1.0000	146.000	.0111

Int_1 (a*b) represents the interaction between VCD and ECGP, and it is statistically significant (**p = 0.0111**) which is less than 0.05.

The interaction between VCD and ECGP is tested for significance. It is found to be statistically significant as **p = 0.0111(<0.05)** and the value of R- sq increases by 0.416 indicating that the effect of VCD (independent variable) on DOI (dependent variable) depends on the value of ECGP (a moderator). Moderators increase the variation predictability of independent variables.

Table.5 Conditional Effect

Conditional effect of Voluntary Corporate Disclosure (VCD)						
EGVP	**Effect**	**SE**	**t**	**p**	**LLCI**	**ULCI**
1.2394	.1684	.0364	4.6279	.0000	.0965	.2403
1.8807	.2190	.0256	8.5490	.0000	.1683	.2696
2.5221	.2696	.0276	9.7642	.0000	.2150	.3241

Table.5 It represents the conditional effects of predictor (VCD) at three different values of moderator (ECGP). This shows how the relationship between VCD and DOI changes as the moderator (ECGP) changes. When the moderator (ECGP) is 1.2394, the effect of VCD on DOI is 0.1684 with a standard error (SE) of 0.0364, and it is statistically significant (p < 0.001). Similar conditional effects are observed for different values of the moderators. As the moderator increases, the relation between VCD and DOI also increases. It means the presence of a moderator strengthens the relation between the predictor and outcome variables.

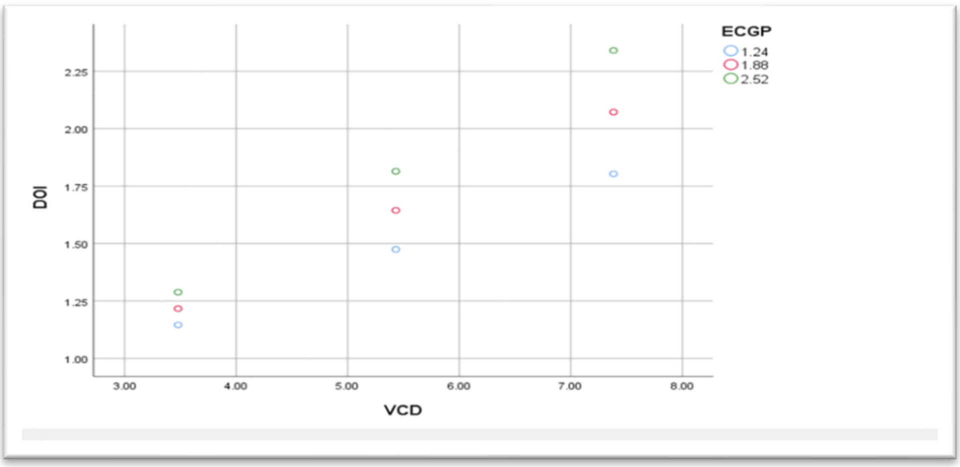

Fig.1 Moderation Graph

In Fig.1 the moderation graphs the three different lines representing the different values of the moderator. It indicates that when the value of the moderator (ECGP) is lower, the increase in voluntary corporate disclosure does not significantly impact investors' decisions. However, with the increase in the value of the moderator, the increase in voluntary corporate disclosure significantly influences the decisions of investors. In summary, the analysis suggests a significant interaction effect between VCD and ECGP on the outcome variable DOI. This means that the relationship between VCD and DOI varies depending on the value of ECGP. However, neither VCD nor ECGP has a statistically significant effect on DOI.

Table.6 Result Summary

No.	Hypothesis	Coefficient	P -value	Result
$H_{1.1}$	VCD ^{A} → DOI	.0706	.3102	**Rejected**
$H_{1.2}$	ECGP ^{B} → DOI	-.1636	.3350	**Rejected**
$H_{1.3}$	A*B → DOI	.0789	.0111	**Accepted**

CONCLUSION

The corporate sector has reportedly faced a rising number of financial scams or frauds. The reason behind this is the false reporting of the facts or the concealment or inadequate disclosure of information in financial reports. Voluntary Corporate disclosure is a way through which additional information is made available to the public that is not disclosed by way of mandatory disclosure. It also reduces the asymmetry of the information in the organization. The legitimate theory of corporate disclosure also emphasizes the fact that to improve the relationship between the company and the stakeholders, the company should always represent socially responsible behavior to improve its image among the stakeholders and in society. The study analyses the impact of voluntary disclosures on the decisions of the investor considering the corporate governance practices of the organization as a moderator. It was found that individually VCD having a p-value is **.3102 (p> 0.05)** and ECGP having a p-value of **0.3350** (**p > 0.05**) have no significant influence on DOI. While considering the interaction effect of independent and moderator (VSD* EGCP) on DOI which was analyzed using moderation analysis, generated a p-value of **0.0111** which is less than 0.05. Hence, based on the findings of the study VSD and ECGP do not have any significant influence on the decision of the investors but their interaction (i.e., when ECGP is treated as a moderator) has moderated the impact of the independent variable on the dependent variable.

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