



## Perceived international environmental factors and corporate voluntary disclosure practices: An empirical study

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### ABSTRACT

Drawing upon the contingency theory of organisations, we identify a set of perceived international environmental factors and examine how these factors influence a company's voluntary disclosure levels. The perceived international environmental factors identified are (a) intensity of global competition, (b) international socio-political institutions, (c) international accounting standards, and (d) international financial institutions. Based on data collected from 100 Egyptian non-financial listed companies, the results of multiple regression analysis indicate that the level of a company's voluntary disclosure is positively and significantly associated with its perceived influence of (a) international socio-political institutions (such as the United Nations, the European Union, the Association of South East Asian Nations, the World Trade Organization, and the Organization for Economic Co-operation and Development), (b) international accounting standards, and (c) international financial institutions (such as the World Bank and the International Monetary Fund). Contrary to our expectations, our findings reveal no significant association between voluntary disclosure level and perceived intensity of global competition. Our study contributes to the international accounting disclosure field by providing evidence from Egypt that perceived international environmental factors may influence the type and level of accounting disclosures by organisations. These findings are also applicable to other emerging countries.

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### 1. Introduction

Accounting disclosure plays an important role in individual and corporate decision making. In particular, a fundamental use of accounting information is to help investors make an effective decision concerning their investment portfolios. Haniffa and Cooke (2002) suggest that corporate disclosure practice does not develop in a vacuum, but rather reflects the underlying environmental influences that affect company accounting practices in different countries. Similarly, other studies (Ashiq & Hwang, 2000; Cooke, 1992; Wallace & Gernon, 1991) explain why accounting systems and disclosure practices differ from one country to another. Research has demonstrated how a company's disclosure practice is influenced by a host of internal organisational and external environmental factors such as firm size, market uncertainty, technology, culture, stock market listing, and corporate governance (Armitage & Marston, 2008; Belkaoui

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& AlNajjar, 2006; Douppnik & Salter, 1995; HassabElnaby, Epps, & Said, 2003; Khanna, Palepu, & Srinivasan, 2004; Mak, 1991; Wallace & Naser, 1995). Yet relatively little is known about how socio-economic and political factors outside an economy may influence corporate voluntary disclosure practice. In this paper, we seek to examine this phenomenon. Building upon the contingency theory of organisations and using empirical data from 100 Egyptian listed non-finance companies, we test whether a company's level of voluntary disclosure is associated with a set of perceived international environmental factors, namely intensity of global competition, international socio-political institutions, international accounting standards, and international financial institutions. In this study, perceived international environmental factors are defined as senior management's perceptions of socio-economic and political factors outside a country's economy within which a firm operates. This definition is widely used in contingency management accounting research (see for a review, Tymon, Stout, & Shaw, 1998). Our review of contingency literature in accounting and prior disclosure research prompted us to believe that the above four perceived international environmental factors are likely to influence a firm's level of voluntary disclosures.

We chose Egypt as our research setting for a number of reasons. One was the rapid growth of this country as an emerging economy with significant foreign investment potential. Another reason was that the business environment in Egypt has been experiencing dramatic reform over the past several decades. The Egyptian environment has been dynamic, evolving through different economic and political systems that arguably affected accounting disclosure practices. Hence, Egypt provided an opportunity for empirical research to gain insights into the relationship between the development of accounting disclosure and international environmental factors (for further details about Egyptian settings, see HassabElnaby et al., 2003). Our study makes two significant contributions to the accounting disclosure literature. First, our evidence on the linkage between corporate disclosure practice and the above four perceived international factors will improve our understanding of the impact of international socio-economic environmental factors on a company's disclosure practice. Second, our empirical evidence from Egypt will have international implications and can serve as guide for accounting researchers studying other international markets.

In the next section, we present a review of the literature in the field. Then we develop a contingency model for analysing the relationship between accounting disclosures and the selected international environmental factors in Section 3. Following this, we describe the research method used. In subsequent sections, we present and discuss our research findings, and conclude.

## 2. Literature review

We conducted a review of prior literature on the association between international environmental factors and corporate disclosure practices world-wide to identify any potential gaps in the broader voluntary disclosure literature. Also, as our study used Egyptian companies as the research setting, we also looked at any prior studies that investigated disclosure practices in Egyptian companies.

Much of the accounting literature assumes that accounting and financial reporting in a country is a function of its environment (Belkaoui & AlNajjar, 2006; HassabElnaby et al., 2003). Also many researchers have argued that external factors such as cultural and colonial ties, economic spheres of influence and language are major determinants of accounting practice (e.g., Abd-El Salam & Weetman, 2003; Dahawy & Conover, 2007). Others have argued that accounting practice is a function of inherent national characteristics: the interaction between the levels of political, economic, educational, and technological development of each country (Armitage & Marston, 2008; Belkaoui & Stewart, 2002; Dixon, 2004; HassabElnaby et al., 2003; Nobes, 2004). In another study, Cooke and Wallace (1990) conclude that the level of corporate financial disclosure regulation in many developed countries is likely to be determined more by internal factors, whereas that of many developing countries is likely to be determined more by external factors. Eccher and Healy (2000) investigated the influence of international accounting standards in corporate disclosures in transitional economies, with special reference to China. However, they found that international accounting standards did not dominate disclosure practices in China. On the other hand, Hope (2003), based on a sample from 22 countries, found positive relations between firm-level disclosure practices, enforcement of accounting standards, and analysts' forecast accuracy.

In recent years, numerous studies have been conducted in developing countries in the area of accounting disclosure, for example, in Bahrain by Al-Bastaki and Joshi (2000), in Saudi Arabia by Mirghani (1998), in the Middle East by Basoglu (2000), and in Zimbabwe by Chamisa (2000). Other studies investigated accounting disclosure practice mainly in regards to stock exchange listings (for a recent review, see Ali, Ahmed, & Henry, 2004; Haniffa & Cooke, 2002). Some studies focus on stock exchange disclosure systems rather than actual company disclosure and examine the role of country-accounting standards in attracting portfolio equity flows to emerging markets (for example, see Ali & Hwang, 2000; Chipalkatti, 2000; El-Gazzar & El-Sadek, 2000; Momin & Shaoul, 2004).

Our literature review found only a few prior studies that looked at international external factors that influenced corporate disclosure practices of either developed or developing countries. We found a limited number of studies that looked at corporate disclosure practices in Egyptian companies with some relevance to our study.

Dahawy (1998) explored how Egyptian internal socio-economic factors affected the influence of international accounting standards (IAS) in Egypt. Using Gray's (1988) model, Dahawy used national cultural dimensions to explain aspects of accounting practice. Dahawy's findings indicate that a country's internal socio-economic factors influence how

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