Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore

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Abstract

Drawing on prior empirical research based on disclosure behavior in developed western markets, this study examines the association of ownership structure with the voluntary disclosures of listed companies in the Asian settings of Hong Kong and Singapore. An analysis of annual reporting practices shows that the extent of outside ownership is positively associated with voluntary disclosures. In particular, the results also indicate that the level of information disclosure is likely to be less in “insider” or family-controlled companies, a significant feature of the Hong Kong and Singapore stock markets. © 2002 University of Illinois. All rights reserved.

Keywords: Voluntary disclosures; Agency theory; Hong Kong; Singapore

1. Introduction

Corporate voluntary disclosure has been the focus of an increasing amount of attention in recent years. Such disclosures can be defined as “disclosures in excess of requirements, representing free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports” (Meek, Roberts, & Gray, 1995, p. 555). Studies in this area have mainly focused on the impact of company characteristics on the extent of voluntary disclosure. Understanding why...
firms disclose information voluntarily is useful to both the preparers and users of accounting information as well as to accounting policymakers (Meek et al., 1995). However, the focus of much of the research to date has been on the US, the UK, and Continental European countries (e.g., Buzby, 1975; Cerf, 1961; Choi, 1973; Cooke, 1989; Firth, 1979; Frost & Pownall, 1994; Gray, Kouhy, & Lavers, 1995; Meek & Gray, 1989; Meek et al., 1995; Turpin & DeZoort, 1998). In contrast, very few studies (e.g., Cooke, 1991; Hossain, Tan, & Adams, 1994; Lau, 1992) have been concerned with the nature and extent of corporate voluntary disclosure in Asian countries. Accordingly, this study aims to examine the voluntary disclosure behavior of listed companies from two important Asian markets, namely, Hong Kong (China) and Singapore.

Hong Kong and Singapore are the focus of this study, first, because of their unique and similar backgrounds as emerging market economies with rapidly growing capital markets. Total market capitalization of the Hong Kong capital market has increased more than seven times from US$83,386 million to US$608,159 million during 1990–1999 (Stock Exchange of Hong Kong (SEHK), 1999). Similarly, it has increased more than nine times from US$21,124 million to US$192,983 million for the Singapore capital market during the same period (SEHK, 1999). In 1999, Hong Kong ranked as the second largest and Singapore the fourth largest economics in Asia in terms of market capitalization (SEHK, 1999). The Hong Kong and Singapore capital markets have both increased in importance and are keenly competing to be among the leading stock market locations in Asia outside Japan. So not only is more research needed on these markets, but also an assessment of similarities and differences in disclosure behavior is likely to be insightful.

Second, voluntary disclosure deserves special attention in the Asian context because firms in these countries have less incentives for transparent disclosure than their Anglo-American counterparts (Ball, Wu, & Robin, 1999). The disclosure orientation of firms in Asian countries is significantly influenced by the cultural environment in which they operate (Gray, 1988; Radebaugh & Gray, 1997). The cultural environments in which Hong Kong and Singapore firms operate do not encourage voluntary disclosure of corporate information. Both societies have been dominated by Chinese people. Chinese society is characterized by having relatively high levels of collectivism and power distance, and strong uncertainty avoidance (Chow, Chau, & Gray, 1995). The societal values of high collectivism and large power distance indicate that people would tend to adhere to rules and regulations and disclose voluntarily less information in their annual reports compared to their counterparts in US and UK markets. On the other hand, long-term creditors in strong uncertainty-avoidance countries such as Hong Kong and Singapore may require more information from their borrowers in order to preserve security. Such unique environments in Hong Kong and Singapore provide us with an opportunity to examine empirically the firm characteristics affecting corporate information disclosure in emerging economies.

Third, the disclosure orientation of firms in these countries is also greatly influenced by the form of their ownership and management structure (Lam, Mok, Cheung, & Yam, 1994; Mok, Lam, & Cheung, 1992). In Hong Kong and Singapore, listed companies are usually controlled by a family group who staff many of the senior positions and also own a large
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