



## TRENDS IN INFORMATION DISCLOSURE FOR TRANSPARENCY

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### Abstract

*This review explores the evolution of transparency practices in firms, highlighting how information disclosure has shifted from traditional to digital formats. It analyzes quantitative and qualitative methods used by researchers to measure transparency, focusing on social, governance, environmental, and financial aspects. The paper underscores the role of transparency in reducing agency costs and information asymmetry, thereby enhancing firm performance and investor trust."*

### Introduction

Transparency is fundamental for ensuring accountability, preventing malpractice, and safeguarding a firm's reputation among its stakeholders (Halter et al., 2009). Providing comprehensive and accurate information is crucial in attracting investors and maintaining market capitalization (Kim et al., 2013). Klitgaard (1998) argues that a lack of transparency fosters corruption, as management may manipulate information for personal gain, bypassing regulations and harming others. Transparency is, therefore, an essential tool in curbing such behavior (Silva, 1999). Over time, firms have increasingly prioritized transparency, seeking

long-term benefits rather than short-term gains through their business activities (Janney et al., 2009). According to Cheung et al. (2010), while transparency is intended to deliver essential information to stakeholders, measuring it remains challenging due to its abstract nature. Nevertheless, firms that effectively implement transparent practices can enhance their market value and brand image, despite potentially accepting minor short-term profit reductions. On the other hand, some firms prioritize profit maximization by establishing efficient management systems and offering clear information, even if this is not immediately appealing to all

investors (Jo & Kim, 2008). The significance of transparency became evident when firms involved in corruption scandals, such as those in Korea, failed to uphold high standards, resulting in performance declines and eventual closures (Chang et al., 2007). Research by Bushman et al. (2004) and Chang et al. (2007) highlights corporate transparency as the mechanism through which organizations share internal information with stakeholders, reducing information asymmetry. Conversely, when managers withhold or manipulate information for self-interest, agency problems arise, compromising stakeholder trust and firm integrity (Kang et al., 2007).

Corporate scandals significantly impact firm value, reducing opportunities for debt financing and harming overall financial stability (Bonini & Boraschi, 2012). Scandals lead to declining stock prices and lower credit ratings, prompting firms to implement robust transparency measures to mitigate such risks. Corruption acts as a barrier to firm growth, hindering competitive advantage, as noted by Sahakyan & Stiegert (2012). A common cause of these scandals is the lack of internal controls and

insufficient transparency, which is particularly evident in larger corporations (Soltani, 2014). Soltani's comparative analysis of American and European corporate scandals highlights how companies have responded by reinforcing internal governance mechanisms to protect investor interests. Agrawal & Cooper (2017) further illustrate the consequences of accounting scandals, emphasizing that they often lead to significant turnover among top management, CFOs, and auditors.

Countries worldwide have established various disclosure laws and norms to promote transparency, aiming to attract investors and boost capital inflow in corporate firms (Han & Zhang, 2016). By providing accurate and comprehensive information, firms can minimize information asymmetry, ensuring that all stakeholders have equal access to necessary information for investment decisions. Some investors express concern that firms might still use information for their own benefit. However, studies such as those by Albu & Flyverbom (2019) argue that consistent and transparent information disclosure can significantly reduce information asymmetry, thereby enhancing investor confidence. This paper

explores four levels of transparency – financial, governance, operational, and social transparency – and their respective impacts on firm performance and stakeholder relationships (Kim, Lee, & Yang, 2013)

Researchers have used various indices to measure transparency, consisting of numerous items representing specific aspects of firms' information disclosure (Gray & Roberts, 1989). These indices assess transparency by assigning weights based on the value or benefit the information provides relative to its cost. This paper reviews previous studies focused on transparency, identifying the information indices used for its measurement. The central idea behind information disclosure indices is to include a subset of items that reveal essential details, thereby enhancing transparency based on the needs and preferences of stakeholders. For example, financial analysts prioritize information about a firm's financial position, while employees might focus on remuneration and employment details (McSweeney & Shaw, 1984). Initially, studies predominantly disclosed governance and financial aspects.

However, over time, additional significant factors have emerged, reflecting the growing need to meet community expectations and comply with legal requirements (Chi, 2009). For instance, Kim et al. (2013) incorporated operational and corporate social responsibility (CSR) elements into their transparency index. Such comprehensive indices support analysts in making informed investment decisions. In today's digital era, transparency indices, often structured as checklists, are crucial in evaluating firms' practices, especially in virtual and digital investment scenarios.

This study provides a comprehensive resource for institutions, investors, and regulatory bodies interested in understanding business activities for investment purposes. It is particularly valuable for academics, individual investors, corporate managers, directors, and securities commissions, which govern regulatory frameworks for registered firms. The latest transparency indices highlight firms' contributions to environmental and social causes, offering accessible information for global investors to make well-informed decisions.



Transparency positively impacts financial activities and resource management. When firms disclose accessible and transparent information, they can enhance their financial operations (López-Arceiz, Bellostas Pérezgrueso, & Rivera Torres, 2017). A robust information system that provides transparent details to investors supports capital growth. Transparency plays a critical role in decision-making by reducing uncertainty, which directly impacts returns; lower uncertainty reduces debt costs (Benito, Guillamón, & Bastida, 2016). Transparency also enables firms to manage crises effectively by providing clear and accurate information about their financial position (Bouvard, Chaigneau, & Motta, 2015). Governance transparency supports accurate forecasting, allowing investors to predict returns more precisely (Bhat, Hope, & Kang, 2006). To attract foreign investment, firms must create a transparent culture, as transparency is crucial in fostering investor confidence and ensuring fair investment opportunities (Choi & Sami, 2012). Strong transparency measures help establish internal control mechanisms that protect investors. Disclosures related to environmental, social, and governance (ESG)

activities contribute to firm value by enhancing societal well-being (Yu, Guo, & Luu, 2018). Investors are increasingly interested in firms' social contributions, which positively influence stock prices and valuation (Noronha et al., 2018).

In the future, transparency will remain vital as firms take on greater social responsibilities. Transparent information will allow investors to make informed decisions and reduce investment risks related to corporate social responsibilities. Policymakers can also utilize transparent information to revise governance codes and legislation that protect markets and customers. This study provides valuable insights for state banks and firms in implementing effective transparency practices. Additionally, academic institutions can leverage the findings to guide research into transparency factors and their application in various organizational contexts, thus contributing to the academic literature on transparency

## Review articles used items

Researchers have used various itemized checklists to evaluate firms' practices and performance, with a particular focus on measuring transparency. Abdalmuttaleb



Musleh Alsartawi (2018) developed a checklist of 90 items for online financial disclosure (OFD), including 71 content-related and 19 presentation-related items. Firms' annual reports were compared against these items using a binary scoring system, assigning a score of 1 for disclosed items and 0 for non-disclosed items. The total score for each firm was calculated by dividing the number of disclosed items by the total number of items on the checklist.

Similarly, Hakim Ben Ottoman (2011) designed the Board Structure and Process Disclosure (BSPD) index, consisting of 35 items divided into four categories:

Board structure and composition (8 items)

Role of the board (12 items)

Directors' training and compensation (6 items)

Executive compensation and evaluation (9 items).

Each item was scored as 1 if disclosed and 0 if not. The total score was then derived by dividing the firm's score by the total possible score of 35.

Siagian and Yan Ramadan (2013) created two indices: the Corporate

Governance Index (CGI) and the Reporting Quality Index (RQI). The RQI featured 13 checklists, each containing 650 items. Firms' reports were analyzed to determine whether the items were disclosed, not disclosed, or not applicable. The total score was calculated by dividing the number of disclosed items by the total applicable items. These indices provide insights into various aspects of firm operations, including shareholder and stakeholder information, disclosure practices, and transparency levels.

Stephen L. Buzby (1974) used a 39-item checklist categorized into three groups for a survey-based study involving financial analysts. The first group contained essential information about firms' stockholders, the second group included items related to future earnings estimates, and the third group focused on investment and accounting information. Each item was scored from 0 (absence of information) to 4 (crucial information that must be included), with intermediate scores (1-3) indicating varying levels of importance. Chow and Wong-Boren (1987) developed a voluntary disclosure index with 24 items categorized into weighted and

unweighted scores to assess the transparency of accounting practices and institutions in the United States. The mean score for each firm was calculated based on the sum of disclosed items. Descriptive statistics, such as the percentage of firms disclosing each item, were used to present the data, illustrating how many firms provided specific information to their stakeholders

Researchers have extensively utilized secondary data from companies' annual reports to analyze transparency and compliance with various regulatory standards, including Islamic business practices. For instance, Ousama and Fatima (2010) developed an index comprising 59 items, combining 31 conventional and several Islamic-specific indices. These items were scored on a binary scale (0 or 1) based on availability, allowing an evaluation of firms' adherence to reporting standards. Liu et al. (2018) further standardized content analysis by creating indices that aligned firms' reporting with international standards, using 941 operationalized items covering elements like capitals and guiding principles. These items were assessed based on their consistency over time, and scores

were allocated to measure temporal alignment and environmental compliance. In the banking sector, both qualitative and quantitative methodologies have been applied to assess disclosure levels, such as the work by Malaquias and Hwang (2018). They divided their analysis into 14 items each for qualitative and quantitative aspects, including mobile technology and privacy, ensuring a comprehensive evaluation of firm practices.

Tahat et al. (2016) focused on financial disclosure by applying a checklist derived from IFRS standards (IFRS 7, IAS 32, IAS 30), covering areas like accounting policies, fair value, and hedging. Similarly, Scaltrito (2015) evaluated voluntary disclosures using 38 items related to firm size, leverage, ownership, and sector-based information, scoring firms based on the presence or absence of these disclosures. Carvajal and Nadeem (2021) introduced a novel approach by using a sustainability reporting standard to measure firm performance. They applied a scoring system from 0 to 100, depending on the information provided, targeting both manufacturing and non-manufacturing firms to assess the impact of sustainability on



performance. This approach captures the growing importance of non-financial disclosures like environmental and social factors.

Research into corporate social responsibility (CSR) has also evolved. Hans et al. (2021) used qualitative methods to explore CSR's impact on firms' financial outputs, highlighting challenges in CSR implementation. Similarly, Collins et al. (2010) explored the drivers and barriers firms face in adopting environmental activities, revealing that while reputation and brand value drive changes, cost and management skills often pose challenges. Dobbs and Staden (2016) combined content analysis of annual reports with surveys to examine CSR disclosure practices. By comparing survey data with report content, they critically evaluated firms' commitments to social and environmental responsibilities. Ben Othman and Hussainey (2011) analyzed 220 companies in 11 emerging markets using a 35-item index on board structure and processes, noting that firms with historical ties to France scored higher on transparency.

Studies like those by Hassan and Halbouni (2013) and Sharif and Ming Lai (2015) further underscore

regional differences in transparency. For instance, Sharif and Ming Lai's examination of 95 Malaysian firms utilized a modified transparency index (MTDI) that linked disclosure practices to firm performance. Overall, these studies demonstrate how transparency metrics are increasingly tailored to reflect both global and regional regulatory expectations, ensuring that indices remain relevant across diverse contexts and industries.

## Conclusion

Researchers have consistently developed indices to measure firms' performance by linking various items that represent different aspects of corporate operations and disclosure practices. These indices aim to capture transparency and offer a comprehensive evaluation of firms' adherence to regulatory standards and performance benchmarks. Over time, and in response to evolving national and international disclosure standards, firms have expanded their indices to incorporate new types of information, such as corporate social responsibility (CSR) and digital business activities, which are increasingly important to investors.



Recent studies show that modern indices provide more comprehensive insights compared to earlier models, as they reflect current trends and practices within firms. This evolution enhances transparency and promotes more informed financial decision-making by reducing agency costs and information asymmetry. The emergence of advanced technology, particularly artificial intelligence (AI), is expected to revolutionize transparency practices further. AI can streamline the evaluation of firms' performance by automating the analysis of disclosure items, enabling stakeholders to make data-driven and timely decisions. Thus, future indices incorporating AI could enhance the speed and accuracy of evaluating firms, ensuring that decision-makers have access to precise information within shorter timeframes.

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