Chapter 13
Board Structure and Voluntary Disclosure:
Tunisian Evidence

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ABSTRACT

This chapter investigates the impact of board structure on the voluntary disclosure level in a Tunisian context. It aims to analyse the relationship between the different boards of directors characteristics of 51 companies listed on the Tunisian Stock Exchange for the year 2010. The empirical results affirm that the board independence and the presence of institutional shareholders in the board have a positive and significant influence on the voluntary disclosure in the Tunisian annual reports. However, the other characteristics presented in the chapter do not have significant impact on voluntary disclosure. This study could be considered as an important extension of prior research investigating the impact of governance mechanisms on voluntary disclosure, particularly those related to the impact of the board directors. It should be noted that, contrary to prior research, this chapter considers both financial and non-financial firms. Also, few studies examined the ownership structure within the board. The findings have potential implications for countries' regulators.

INTRODUCTION

The search for a sufficient level of transparency remains one of the primary interests of any organization since it guarantees not only short-term profit but also long-term progression and survival. Moreover, due to the contemporary context of globalization and market pressure on corporate management, demand has increased in terms of harmonization of corporate governance and disclosure to ensure a satisfactory level of transparency. Furthermore, firms worldwide are interested to penetrate international capital markets. Consequently, the disclosure of reliable and relevant information becomes necessary to stakeholders since it allows them to assess the management stewardship and to make adequate decisions (Albitar,

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2015). In order to ensure a reasonable transparency, several legal frameworks have been implemented to regulate firm disclosure. A distinction was made between the mandatory disclosure and the voluntary one (Alnabsha, Abdou, Ntim, & Elamer, 2018; Bertomeu, Vaysman & Xue 2019; Noh & Weber, 2019). The latter has been defined as "disclosures in excess of requirements, represent free choices on the part of company management to provide accounting and other information deemed relevant to the decision needs of users of their annual reports" (Meek, Roberts, & Gray 1995, p. 555). Nevertheless, companies' behaviour regarding voluntary disclosure varies considerably as it is at the discretion of the managers. In some cases, the latter may judge the insufficiency of the mandatory information to reflect a faithful representation of the company, which leads them to go beyond the legal requirements and supplement it with further voluntary disclosure in order to enhance transparency. However, the problem arises when the manager abstains from the communication of such information. Gunawen (2019) believes that the neglect of voluntary disclosure such as business expansion may lead to an unsuitable judgement on the real firm performance and he cited the cases of Batavia Air and Citra Maharlika Nusantara Corpora Tbk in Indonesia who declared bankruptcy even though their performance were considered as "good".

As a result, and in a context of information asymmetry between managers and external investors, the company's communication policy is of paramount importance and represents a powerful tool for stakeholders. This need has become more and more essential in the business world to restore a confidence climate and avoid drifts, especially after many firm collapses. The corporate governance mechanisms are considered the control system for managers' behaviour. The interest on good corporate governance increased and many reforms took place around the world to enhance transparency, accountability and disclosure (Pillai & Al-Malkawi., 2018).

The concept of voluntary disclosure is one of the most discussed topics in financial accounting. Several researchers have focused on analysing the level of voluntary disclosure and identifying its determinants (Alfraih & Almutawa, 2017; Al-Janadi, Rahman, & Alazzani, 2016; El-Diftar, Jones, Ragheb, & Soliman 2017; Rouf & Akhtaruddin, 2018), while others have focused on its economic and financial implications (Cho & kim, 2020; Dawd & Charfeddine, 2019). Despite, the prior attention carried to the voluntary disclosure, it remains important to continue the investigation on it. Several researchers consider that, the voluntary disclosure is crucial to alleviate the information asymmetry which is greater nowadays compared to the past since that the current information needs are different and larger (Habbash, Hussainey, & Ibrahim, 2016).

It is in such context that appears the motivation for this chapter. It aims to find answers for the following questions: (1) what is the extent of voluntary disclosure in Tunisia? and (2) what are the board characteristics that influence the voluntary disclosure in Tunisian listed companies? Therefore, the objective of this chapter is to analyse the relationship between the directors' board characteristics of listed Tunisian companies and the recourse to voluntary disclosure. The investigation of this issue is essentially based on two theories namely agency theory and signalling theory which are both based on the assumption of information asymmetry between external investors and managers. Voluntary disclosure reduces agency costs arising from the divergence of interest between shareholders and managers, and between shareholders and creditors. As for the signalling theory, managers have benefits in reporting to the different stakeholders the company' profitability prospects in order to obtain new financing conditions and thus to reduce costs. This chapter examine five hypotheses related to the characteristics of the directors' board, namely the independence of its members, the duality of the Chief Executive Officer [CEO] and the chairman, board size, the presence of majority shareholders in the board and institutional shareholders.