



Cite Us



Moderating Role of Ownership Structure on the Relationship Between Board Diversity and Forward-looking Information Disclosure



Khurram Ashfaq *

Vasia Maqsood †

Sana Ullah ‡

p-ISSN: 2521-2974

e-ISSN: 2707-0093

L-ISSN: 2521-2974

Citation: Ashfaq, K., Maqsood, V., & Ullah, S. (2023). Moderating Role of Ownership Structure on the Relationship Between Board Diversity and Forward-looking Information Disclosure. *Global Economics Review*, VII(1), 89-96. [https://doi.org/10.31703/ger.2023\(VIII-I\).08](https://doi.org/10.31703/ger.2023(VIII-I).08)

Abstract: *The study's objective is to examine how ownership structure affects the relationship between Board Diversity (BD) and the disclosure of Forward-Looking Information (FLID). The study initially included 500 non-financial companies from the BSX 500 index for the year 2016. However, only 303 companies' data were analyzed due to insufficient information. Qualitative content analysis was used to analyze the FLID. The association between the research hypotheses was examined using OLS regression. The results indicated that the disclosure of forward-looking information was positively associated with female directors, foreign directors, promoters, and return on equity, while it was negatively associated with leverage, firm size, and big4. Furthermore, in terms of the moderating effect of promoters' holdings, it has been found that ownership structure has a negative effect on the relationship between board diversity and FLID. The study aimed to provide a better understanding of the disclosure practices of Indian companies.*

Key Words: Board Diversity, Foreign Directors, Female Directors, Ownership Structure, Forward-looking Information Disclosure

JEL Classification:

Introduction

The scandal of Enron had a tremendous effect on the financial markets, lowering investor confidence and leading to large financial losses for businesses as well as individual investors. The Sarbanes-Oxley Act (SOX) was passed in order to solve these problems by putting into effect a variety of regulations designed to enhance the quality of audits and governance processes. Before the SOX Act was passed, businesses were not required to

report on flaws in their internal controls unless it was determined by external auditors that it was necessary to issue an attestation report on the quality of their company's internal controls. This was the only circumstance in which companies were required to do so. However, in the wake of the scandals involving Enron and WorldCom, this strategy was deemed to be insufficient because it did not prevent the aforementioned businesses from engaging in fraudulent actions that had severe repercussions for their financial situations. The

*Assistant Professor, College of Commerce Government College University, Faisalabad, Punjab, Pakistan.

†College of Commerce Government College University, Faisalabad, Punjab, Pakistan.

‡ Instructor, Government Associate College of Commerce, Faisalabad, Punjab, Pakistan.



Sarbanes-Oxley Act (SOX) included a number of requirements that were designed to increase the level of transparency and accountability in corporate reporting, as well as to improve the overall quality of audits. They included mandates for auditors to review the aforementioned controls and processes, as well as obligations for firms to create internal controls and procedures for financial reporting. In addition, these laws required auditors to communicate their findings to the general public. Generally, the SOX act is recognised for improving the quality of financial reporting and promoting openness in corporate governance. This is a major accomplishment for the legislation. On the other hand, it has also been attacked for the fact that it places enormous regulatory burdens on businesses, particularly on smaller organisations, and for the possibility that it would discourage investment and innovation. In spite of these objections, the Sarbanes-Oxley Act (SOX) continues to be a key piece of legislation in the United States. It has also made a substantial contribution to the corporate governance and financial reporting standards of countries all over the world. Section 404 required the adequacy of internal control over financial reporting, both the assessment of the management and the firms' external Auditors. The impact of women on different aspects of management in the corporate board was analyzed, such as firm performance decision-making and the firm's value. Little evidence exhibits the relationship between the gender diversity of the board and FLID. This paper shows that the more female member percentage in any corporate board brings better performance in firm management decision-making better style of performance than those without (Arun, Almahrog, & Ali Aribi, [2015](#)).

In recent years, India has passed a regulation that requires businesses to include at least one female member on their board of directors. This law came into effect in 2014. Many people believe that passing this bill will be an efficient means of boosting gender diversity and increasing the number of women who hold leadership positions in businesses. There has been a 76% compliance rate with

this rule among the firms that are listed on the National Stock Exchange (NSE) 500, which indicates that the majority of these companies have appointed at least one woman director to their boards. Concerns have been raised, despite the fact that this law has been successful in its goal of placing women on boards, regarding the influence that these women are having. According to the opinions of a great number of knowledgeable individuals, it will take some time before this law's full implications are understood. Despite the fact that women have been appointed to over 90 per cent of the Indian companies that are listed on the NSE, it has been observed that a significant number of these women fail to have an influence in their roles. In addition, despite the fact that the law has been successful in raising the number of women serving on boards, it has not addressed other issues, such as the disparity in compensation between men and women or the lack of women serving in positions of senior management. The law has, notwithstanding these concerns, had a substantial impact on the gender diversity of those who hold senior positions in corporations. It was stated that 1,451 people representing 147 NSE-listed firms did not comply with the rule by the deadline of April 1, 2015, which had been set as the date by which they had to do so. This demonstrates that although there has been a progress, there is still work to be done in order to guarantee that women have enough representation in business leadership roles in India, despite the fact that progress has been achieved. The NSE Centre for Excellence in Corporate Governance's latest report on gender diversity on boards revealed that even after the deadline, women still only accounted for a very small percentage of board members. The Objectives of the study are:

- The effect of Board diversity on the disclosure of forward-looking information in annual reports.
- How firm ownership structure moderates the relationship between Board diversity and forward-looking information.

Literature Review

Legitimacy Theory

The legitimacy hypothesis is an essential idea that serves as the conceptual backbone of the social contract that exists between a business and the society in which it functions. According to this line of thinking, in order for a company's operations to be successful, the company's core principles need to be congruent with the prevalent cultural norms of society. This idea has been included in the study of accounting as the legitimacy theory. The purpose of this theory is to explain how corporate management communicates with external stakeholders in order to meet societal interests and improve decision-making. Accounting's principal purpose is to supply external users with information that is pertinent to their needs and can be relied upon in order to assist informed decision-making. The legitimacy theory places a strong emphasis on the significance of the disclosure of information that satisfies the normative societal expectations of the community in which the business is active. Businesses are able to preserve and improve their legitimacy in the eyes of society if they continue to disseminate information that alters the perspectives of their company's external stakeholders. The legitimacy theory has become an essential component of accounting research, and its effect may be seen in the manner in which businesses handle disclosure and engagement with external stakeholders. Researchers in accounting have made use of the legitimacy theory in order to investigate how businesses manage their connections with external stakeholders and how they react to the expectations that society has of them. This idea emphasises the significance of taking into account the sociocultural environment in which a company operates as well as the requirement for the company's values to be congruent with the prevalent cultural norms. In general, the legitimacy theory is an important idea in accounting studies because it offers a framework for comprehending the connection that exists between a business and the many parties that are located outside the organisation. Companies are able to preserve

their social legitimacy and improve their reputation by adhering to the legitimacy theory, which eventually contributes to the success of the companies over the long term. (Cormier, Gordon, Magnan, Irene, & Maguan, 2004). The annual report has been detected as an important source of legitimation (Wallwiener & Schauf, 2004).

Board Diversity and FLID

In the view of the literature, it was discovered that many studies had been carried out to establish the association between the factors of board composition incorporating both agency and resource dependence perspectives. A multiple regression model was used to measure the hypothesis. F test shows that this model is significant. The financial area of the firm positively affects board composition. Board diversity has received much attention throughout the last twenty years due to certain regional market crises, economic reforms, and huge company debacles. A study research paper carried out of taking the period (2008-2014) on a sample of publicly listed Canadian companies documented that the change in voluntary disclosure in future due to causes and reduction of firms' harmful decades change climate change disclosure (Walid et al., 2015). Another study examines the trend of gender diversity of corporate boards in 300 top Malaysian publicly listed firms from 2005 to 2009. This literature describes the significantly different characteristics of firms with individual, foreign, and female directors. Board diversity creates a positive impact on many firms in Malaysia that encourage the presence of gender diversity in boardrooms with unique ownership structures in corporations. Ownership structure in Malaysia has been characterized by high levels in different forms of corporations.

H1. There is an impact of BD on FLID.

The Moderating Role of Ownership Structure

Panicker (2017), conducted a study on Indian firms to investigate the association between various ownership categories and corporate

social responsibility. The study examined the heterogeneous behaviour of institutional investors, foreign institutions, domestic banks, and promoters from family firms in supporting corporate investment. The findings suggest that investment decisions about managers should consider the heterogeneity of the organization, and investors can align their preferences with different types of firms. The study highlights the crucial role of ownership structure in shaping corporations' activities to evolve parsimonies. The promoters are less attracted to the corporation's reputational prospects. Additionally, another study investigated the relationship between a firm's value and performance in emerging market data from 225 firms over two years. The study found that there are different life cycles in corporate governance and conducted two measures to proxy for the maturity of a firm - corporate dividend payout and firm maturity proxy.

H2. The ownership structure moderates the relationship between BD and FLID.

Methodology

For the purpose of this study, secondary data

Results

Table 1

Correlation Analysis.

	FLID-I~X	IND-DIR	FEM-DIR	FOR-DIR	PROM H~S	LEV	FIRM S~E
FLID-INDEX	1.000						
IND-DIR	-0.038	1.000					
FEM-DIR	0.045	0.139**	1.000				
FOR-DIR	0.068	-0.104*	0.079	1.000			
PROM-HOLDING	0.003	0.028	-0.144**	-0.046	1.000		
LEV	-0.020	0.033	-0.020	-0.109*	0.007	1.000	
FIRM SIZE	-0.073	-0.029	0.122**	0.020	-0.138*	0.254***	1.000
Big4	-0.055	0.011	-0.008	0.017	-0.089	0.087	0.116**
ROE	0.020	-0.009	0.024	-0.002	0.010	0.008	-0.037

The correlation table provides a visual representation of the coefficients of correlation that have been calculated between the various research variables. The values range from -1 to +1, with -1 indicating a perfect negative correlation between the two variables, 0 indicating there is no association, and +1 indicating a perfect positive correlation

in the form of an annual report were utilised. The information was obtained for the year 2016 from the annual reports of businesses that are included on the Bombay Stock Exchange's BSE500 Index (BSE). The Companies Act was enacted in 2013 which required companies to include at least one female on board, hence this study is based on data from 2016. The research utilised a method known as cross-sectional data analysis, which required the collection of information from a wide variety of sources. These sources included annual reports, non-financial company statements, business records, an analysis of the businesses that are listed on the BSE, and an analysis of the financial statements those businesses have. The annual figures for board diversity were acquired from the statutory corporate governance report that was included in the annual reports of the businesses that were included on the BSE500 Index for the year 2016. In order to collect information about forward-looking information, the method of content analysis was utilised (FLID). Figure 1 presents the theoretical foundation of the model that has been proposed.

between the two variables. It should come as no surprise that the FLID-INDEX has a perfect positive correlation with itself. There is a modest negative association between independent directors and board diversity, as indicated by the fact that IND-DIR has a weak negative correlation with FLID-INDEX (-0.038). There is a modest positive association

between female directors and board diversity, according to FEM-DIR, which has a weak positive correlation with FLID-INDEX (0.045). This indicates that there is a connection between the two. The fact that FOR-DIR has a moderately positive correlation with FLID-INDEX (0.068) suggests that there is a moderately favourable connection between diverse board membership and the presence of foreign directors. It would appear that promoter holding has a slight positive link with female directors and a slightly negative relationship with foreign directors, given that PROM-HOLDING has a weak positive correlation with FEM-DIR (0.139) and a weak negative correlation with FOR-DIR (-0.046). It may be deduced from the fact that LEV has a weak negative correlation with FLID-INDEX (-0.020) that there is a modest negative association between board diversity and leverage. There is a somewhat negative

connection between FIRM SIZE and FLID-INDEX (-0.073), which indicates that larger companies have a tendency to have a little bit less board diversity. Big4 has a moderately negative association with FIRM SIZE (-0.116), which indicates that larger firms are less likely to be audited by Big4 firms. This is due to the fact that larger firms have more employees. There is a modest positive association between the return on equity and board diversity, as indicated by a weak positive correlation between ROE and FLID-INDEX (0.020). ROE has a weak positive correlation with FLID-INDEX.

Regression Analysis

In this study, the moderating effect of promoters' holdings on the relationship between board diversity and FLID has been investigated using the data from annual reports for the year 2016.

Table 2

Regression Results for the Overall Index.

FLID_INDEX	Model 1	Model 2
FOR_DIR	0.065 (1.12)	-
FEM_DIR	-	0.075 (0.95)
PROM_HOLDINGS	-0.008 (0.26)	-0.006 (0.18)
LEV	-0.003 (0.10)	-0.006 (0.19)
FIRM_SIZE	-0.014 (1.25)	-0.014 (1.30)
big4	-0.017 (2.13)**	-0.016 (2.18)**
ROE	0.001 (2.35)**	0.001 (2.40)**
R ²	0.12	0.115
N	294	294

In Model 2, the impact of board diversity on Forward-Looking Information Disclosure (FLID) is examined, with female directors found to have a 7.5% influence on FLID. The logarithm of total assets is used to calculate Firm Size (F_SIZE), which has a value of -14% in both Model 1 and Model 2, but with varying significance levels. Leverage (LEV) is measured by dividing long-term debts by total assets, and its value is -0.3% in Model 1 and -0.6% in Model 2, with a difference in significance level. Return on Equity (ROE) is

calculated as net income divided by total assets, and Big4 is a dummy variable where a value of 1 indicates that the company is audited by a big4 audit firm, while a value of 0 indicates otherwise. The coefficient of determination (R²) indicates the percentage change in the FLID explained by the model. N represents the total number of observations in the study. A p-value less than 0.05 has a significance level of 5%, while a p-value less than 0.01 is considered significant at a level of 10%.

Table 3

Regression Results Based on the Moderating Effect.

FLID_INDEX	Model 1	Model 2
FOR_DIR	0.144 (1.04)	-
FEM_DIR	-	0.322 (1.50)
PROM_HOLDINGS	0.003 (0.09)	0.056 (0.96)
LEV	-0.004 (0.12)	-0.006 (0.17)
FIRM_SIZE	-0.013 (1.23)	-0.015 (1.38)
big4	-0.017 (2.11)**	-0.015 (2.40)**
ROE	0.001 (2.33)**	0.001 (2.40)**
For Dir*p holding	-0.169 (0.63)	-
Fem*p holding	-	-0.478 (1.24)
R ²	0.12	0.115
N	294	294

This table is based on promoters holding moderating effects on the relationship between the female board and FLID. The regression analysis reports that board diversity has a positive but insignificant impact on FLID. Considering the Model 1 moderating effect of ownership concentration on foreign boards and female boards, it is observed that the relationship is positive and insignificant. However, the other two proxies confirm the same results as in Model 1. Further, considering the effect of control variables on FLID, it has been observed that Firm size, leverage, return on equity, firm size, big4, and firm profitability have positive impacts on FLID. R²coefficient of determination shows the quality of fitness of the model. It shows that 12% of changes in FLID this changes in the regression model, and 11.5% of the change occur in model 2. These variances in values show that in two different proxies, change occurs slightly differently. These results are consistent in all the two proxies, i.e. Model 1 and Model 2. Finally, considering the significance of the whole model, it has been concluded that BD has a positive impact on FLID. However, the significance in some variables. The leverage, big4 and ROE have negatively impacted FLID. Others are only positively associated but not significant with FLID. The regression analysis shows that board diversity positively impacts FLID, but the impact is not significant. However considering

the moderating effect of promoters holding, the relationship between board diversity and FLID has become negative but at an insignificant level. Considering that Model 1 and Model 2 also confirm the same outcome in some variables. However, considering the impact of control variables, it has been shown that firm size, leverage, big4, and firm size have a negative relationship with FLID.

Conclusion

This study observes the impact of board diversity on FLID with a moderating role of ownership structure in this relationship while controlling for firm size, return on equity, firm size, leverage, and profitability. Data has been used in this study for the annual reports of 303 firms from the non-financial sector listed on the BSX index 500 (BSX 500) for 2016. The corporate governance guidelines were published in 2013, so this study investigated the effect of these corporate governance guidelines on FLID. The regression analysis has been performed to incorporate the results. Thus, it has been observed in this study that there is an association between the two variables, but the relationship is not significant. Moreover, the moderating impact of promoters' holdings has also been examined here, and the results reported were negative but insignificant. In the regression analysis for moderating variable of promoters'

holdings, the results showed a negative relationship between foreign and female directorship with FLID, which means that the promoters' holdings negatively impact the relationship between female and foreign directors and FLID activities of the firms. So, based on the results, this study concludes that ownership structure has a moderating impact on the relationship between forward-looking information disclosure, and it discourages the disclosure of FLI in annual reports.

Implications of the Study

This study can be implied to know about the level of FLID practices in Indian Business industries. Further, it can also provide pieces of evidence that promoters' holdings negatively affect the relationship between board diversity and FLID activities of the organizations. This study also highlighted the

sectors that are highly engaged in FLID practices and those that are not engaged in such activities, so government and other regulatory authorities can take insightful steps for its improvement. Moreover, corporate governance guidelines have announced that there must be at least one female director on the board, so this study also aligns with this implication. The result of forward-looking information is very important for the shareholders. In the context of India, the level of forward-looking information is better than the regulation of internal control 2013. Considering board diversity, forward-looking information is favourable use for shareholders. Firms' Internal control quality improves performance by better monitoring the firm's ownership structure activities. Board diversity brings better performance in firm management decision-making and better performance in corporate gover.

References

- Arun, T. G., Almahrog, Y. E., & Ali Aribi, Z. (2015). Female directors and earnings management: Evidence from UK companies. *International Review of Financial Analysis*, 39, 137–146. <https://doi.org/10.1016/j.irfa.2015.03.002>
- Arun, T. G., Almahrog, Y. E., & Aribi, Z. A. (2015). Female Directors and Earnings Management: Evidence from UK companies International Review of Financial Analysis Female directors and earnings management: Evidence from UK companies. *International Review of Financial Analysis*, 39(March), 137–146. <https://doi.org/10.1016/j.irfa.2015.03.002>
- Cormier, D., Gordon, I. M., Magnan, M., Irene, M., & Maguan, M. (2004). Disclosure: Management's Environmental Contrasting Perceptions with Reality. *Journal of Business Ethics*, 49(2), 143–165.
- Panicker, V. S. (2017). Ownership and CSR in Indian firms. *Social Responsibility Journal*, 13(4), 714–727. <https://doi.org/10.1108/SRJ-02-2017-0030>
- Walid, B., Millicent, C., & McIlkenny, P. (2015). Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project. *Journal of Business Ethics*, 142(2), 369–383. <https://doi.org/10.1007/s10551-015-2759-1>
- Wallwiener, D., & Schauf, B. (2004). Editorial: Aktuell diskutiert. *Geburtshilfe Und Frauenheilkunde*, 64(4), 419. <https://doi.org/10.1055/s-2004-820924>
- Al-Shaer, H., & Zaman, M. (2018). Board gender diversity and sustainability reporting quality. *Journal of Contemporary Accounting & Economics* 2016, (March), 0–34. <https://doi.org/10.1016/j.jcae.2016.09.001>