

Impact of Board Composition on E-Corporate Reporting

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Abstract

The study revolves around the E-Corporate Reporting and its objective is to examine the association between the board composition (board independence, board meetings and role duality) and its impact on corporate disclosures electronically. The model for the study analyzed the top 200 listed Indian companies from Fortune500 on the basis of their market capitalization for the financial year of 2018-19. An E_CR index with 73 items has been prepared and is categorized into financial and non-financial parameters, which act as a dependent variable whereas the mechanism of governance is the independent variable with the impact of 3 control variables (firm size, the firm age and liquidity). Analysis of data is done using the Regression to know the proportion of disclosures over web in India. The results indicated that out of all mechanisms, just the firm size has a positive relationship and has an impact over corporate reporting disclosures electronically.

JEL Classification: M40, M41, M42, M48

Keywords: Corporate Governance, Electronic Corporate Reporting (E_CR), Board Independence, Board Meetings, Duality.

1.Introduction

The mechanisms, rules, practices, laws, and processes compiled together to form the Corporate Governance by which the corporations are controlled and operated. It defines the responsibilities and duties for the parties (board of directors, creditors, stakeholders, managers, directors, regulators) of the corporation and also provides a framework for the decision making in corporate affairs. There are certain principles where Corporate Governance must adhere to:

- ❖ The strategy to build long term value should be approved by the board.
- ❖ Every corporate strategy shall be developed and operated under the board's sight keeping in mind the sustainable long-term value.
- ❖ The financial facts need to be disclosed at intervals of time in order to aware the investors regarding the financial and risks of the company.

Because of the audit committee, the external auditor supervises the annual financial statements with internal control and also directs risk management and compliance programs. A Nominating committee perform its role in transforming the governance in case of need. It acts as a lender of

last resort. Incentives, compensation, perks, or related financial parameters of CEO, senior managers are developed by the compensation committee under the government to incentivize the creation of long-term creation strategy. The problem of agency theory diminishes when the board considers the company's population. The Internet has played a vital role in the 21st century where India being digitized i.e. the capacity to access the financial and non-financial data from the web is now standardized. Therefore, the concept of E-Corporate reporting arises. What is corporate reporting? It is the presentation of disclosing the facts in a way of Integrated Reporting, Financial Reporting, Corporate Governance, and Corporate Social Responsibility. It is done to provide useful information and adding value to the investors, stakeholders, creditors, and other various users. When all these disclosures are presented over the web is termed as Electronic Corporate Reporting.

2. Review of Literature and Development of Hypothesis

It is the evaluation of the studies/researches attempted by prior researchers. It is the combination of a descriptive and analytic summary of the existing research. The review is based on the prior research conducted in this field.

I. Board Composition

Independence of the Board

There is a need of independent directors who act as a guide for the company and helps in improving corporate credibility and governance standards. They also help in checking and maintain accountability wherever needed and aims for prospects. Their vision is clear and examines the business with objectivity. Independent directors are dual as where there is a majority of independency, they act as a substitute and complementary when they find the less proportion of board size (Sandhu, 2019). Prior studies of Xiao et al. (2004), Kelton and Yang (2008), Abdelsalam and El- Masry (2008) shows the positive association among the variables but Cormier et al. (2010) was unsuccessful in establishing an association between two variables. Based on various assumptions, we hypothesize the significant association between board independence and E-CR.

II. Board Meetings

Board effectiveness is ensured if there are a higher number of meetings. The more they come across and communicate, the faster the results are discussed and implemented. Therefore, there will be a better symmetry of information. Hashim et al. (2014) depict the significant association between the variables. (Sandhu, 2019) assumed the significant association but her findings revealed the negative impact of board activity on CIR. As the concept states about promoting a better environment, we, therefore, hypothesize the significant association between board meetings with the level of E-CR.

III. Role Duality

The dualism of a role comes when the CEO and Chairman of the company share the same shoe. This weakens the ability to exercise and monitor effectively. The chances of dominance will enlarge as one person is assigned to look for all tasks together, which will create the differences between employees. Authors like Ho and Wong (2001), Abdelsalam et al. (2007), Kelton and Yang (2008), Ezat and Masry (2008) and Yap et al. (2011) more have proved the inconsistent connection among the variables. Therefore, considering both the aspects of duality, we hypothesize the negative relationship between role duality and E-CR.

3. Research Methodology

I. SAMPLE: The sample for the study is taken as 200 Indian companies in the first stage. After scrutinizing, companies belong to banking and financial sector (8) are omitted because it doesn't regulate under the Companies Act, 2013, but are governed by the Banking Regulation Act. (Sandhu, 2019). The rationale behind the selection of the companies from Fortune500 is the market capitalization for the year 2018. The financial year taken for the study is 2018-2019. **(Refer table: 1)**

II VARIABLES: For the study, the variables were categorized into 3 heads:

a) Dependent variables: An E_CR index is prepared and classified into financial data (15 items), data on corporate governance (18 items), information of investors (6 items) and the presentation contents (34 items). Financial and Non-Financial parameters are summed up into E-Corporate Reporting (E-CR). **(Refer the appendix)**

b) Independent Variables: The percentage of board independence, board meetings and duality are considered as independent variables for the study. Role Duality is a dichotomous variable assigned as 1 if the CEO and Chairman are the same people otherwise 0.

c) Control Variables: According to the literature review, control variables i.e. size of the firm, age of the firm, and liquidity are selected for the study. Some authors like Ashbaugh et al. (1999) concluded that due to the economies of scale, the information is disclosed by bigger firms is higher relatively. The Firm size is calculated by the natural logarithm of total assets of the firm. According to the study of Abdelsalam et al., 2007, and Kelton and Yang, 2008, there is a positive relationship between firm size and E-CR. Firm age is a log of its year of the corporation measured in several years. Liquidity acts as a lender of last resort, it is the emergency savings in the form of cash used in unforeseen happening or financial setback. Sometimes it also plays a vital part in seizing the opportunities. In short, it is the process of converting investments into cash. It is just the accessibility to the investment. Few of them are marketable securities, cash, investments, etc. The short-term obligation which is due for a year is termed as Liquidity, which is measured by the current ratio (total assets/total liabilities). **(Refer table2)**

4. ANALYSIS OF DATA

This data falls under the basic assumption of Regression as it is checked against normality, tested by using Winsor and Normalize function in R Studio, multicollinearity using Tolerance Value and Variance Inflation Factor in SPSS (Refer table: 5). The hypothesis for the study is analyzed using multiple regression analysis. The tool used for data analysis is IBM SPSS. Accordingly, the regression equation is formed:

$$E_CR = \alpha + \beta_1 * PBI + \beta_3 * BM + \beta_4 * DU + \beta_8 * FS + \beta_9 * AGE + \beta_{10} * LEV + \beta_{11} * E_CR + \beta_{12} * FERT + \beta_{13} * TRANSPORT + \beta_{14} * BASIC \text{ MATERIAL} + \beta_{15} * DIVERSIFIED + \beta_{16} * TELECOMM + \beta_{17} * TEXTILE + \epsilon$$

Note: E_CR is the level of E-Corporate Reporting, PBI is the proportion of board independence, BM is a number of board meeting, DU is role duality of CEO, FS is the firm size, AGE is the incorporation year of an enterprise, and CR is the current ratio.

The results of Data Analysis and Discussions

I. Descriptive Statistics

Table 5 discloses the methods of the center of distributions and variability of statistics using the average, median, minimum, maximum, and root mean square deviation. The frequency of board meetings ranges to 70.38 maximum and 33.3 minimum which states that companies are active to get the pulse on the entity and to address the vital matters with a maximum of 12% of independent directors with an average of 6.71. The shareholders were provided a higher level of governance only when the board is separated from CEO so the role duality with the mean of 0.30. The maximum ratio of liquidity is 2.43 with 1.23 mean. The information disclosed on websites related to the financial and non-financial parameters states the 1.08 maximum value with 0.83 means.

II. Regression Analysis

Variance Inflation Factor (VIF) plays the role of an indicator of multicollinearity among the predictors in a model. **Table: 6** depicts VIF and tolerance figures are fulfilling the criteria of a pre-defined benchmark of no multi-collinearity and in good shape so they can go ahead with regression. In **Table: 5**, the result of board independence ($t=-1.3$, $\text{sig}=0.19$) is in the negative relationship with E_CR and is inconsistent with the study of Xiao et al. (2004), Kelton and Yang (2008), Abdelsalam and El-Masry (2008). Therefore, H1 is not supported. With the ($t=-1.35$, $\text{sig}=0.18$) depicts the insignificant relationship of a board meeting with E_CR. This may be due to the inability to stand at one decision. It is similar to one brain that is better than many. Hence, H2 is not supported. With the ($t=-0.13$, $\text{sig}=0.89$) there is no association between the duality of CEO and E_CR. Abdelsalam and El-Masry (2008) revealed in his study that there is an insignificant link between the variables. Agency theory and Stewardship theory argues on the

same platform stating the dominance of full control of the CEO and the presence of unity of command. Hence, H3 is not in favor. The fourth hypothesis depicts an insignificant relationship between the firm size and E_CR and findings of Ezat and El-Masry's (2008) studies were inconsistent (sig=0.8) which means the Indian companies are still lacking behind irrespective of the presence of the economies of scale. Hence, H4 is also not accepted. The fifth hypothesis is to examine the relationship between the ages of the company with E_CR and the results shows the positive relationship ($t=-1.08$, $sig=0.28$) between the variables. Thus, H5 is supportive. I presumed as per results of regression, the older the company is, the more it is impacting on E_CR. Adding to this, a few variables of industry type shows a positive relationship with E_CR. The sectors are FERT, TRANSPORT, BASIC MATERIAL, DIVERSIFIED, TELECOMM and TEXTILE are impacting the level of disclosures to a great extent and significantly with the p-value at 5% or less.

5. Closing Remarks

The study on the relationship between the mechanisms of governance with its disclosures electronically shows that the mechanism of corporate governance is not highly influences the E-Corporate Reporting practices. Out of 31 sectors only 6 sectors have a significant impact on the level of disclosures electronically which implies India is still on developing stage in terms of digitalization. Despite the fact about an independent director's ratio in the company and their frequency of meeting annually, companies are still not fully disclosing the facts and figures over the web. According to an index of E_CR, the maximum percentage disclosed is 99.36% with a 6% minimum. This depicts that Indian companies are still lagging in disclosing the facts fully. The study is limited to the single mechanism of governance, i.e. the board composition. Nevertheless, the study shows how positively the firm size influences Electronic Corporate Reporting practices (E_CR). However, the study did not prove the consistency of result explored by previous researchers' w.r.t Board Independence, Board Meeting, and the role duality, an Age of the firm with its Leverage status, but the sectors significantly show the impact of governance mechanisms over E_CR. The study is a cross-sectional with limited sample size. Considering the longitudinal study with large sample size and with other major variables can improve future research with better results.

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Table:1 Classification of sample companies

Total Sample Companies	200
Less:	
Banking & Financial Sectors	-8
Have no functional websites	-15
Merged	45
Net Sample Companies for the study	132

Source: Author’s methodology of selection of article

Table: 2 Measurements of Variables

<i>Abbreviated Name</i>	<i>Variables</i>	<i>Definitions</i>
PBI	Board Independence	Proportion of the independent directors with the total number of directors on the board
BM	Board Meeting	The frequency of meetings held in a year 2018-19
DU	Role Duality	It is a dichotomous variable assigned by 1 if CEO and Chairman are the same person otherwise 0
FS	Firm size	It is the return of natural logarithm of total assets.
AGE	Firm Age	It is the return of the natural logarithm of the incorporation year
LEV	Leverage	Ratio of current assets to current liabilities
E_CR	Electronic Corporate Reporting	Total score of Financial and Non-Financial parameters

Source: Author’s calculation, & Sandhu (2019)

Table: 3 Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
BI	33.30	70.38	51.50	9.55
BM	4.00	12.00	6.71	2.32
DU	.00	1.00	.30	.46
AGE	9.33	15.87	11.90	1.32
FS	1.39	4.80	3.63	.62
LIQUIDITY	.46	2.43	1.23	.64
E_CR	.28	1.08	.83	.12

Source: Author’s calculation using SPSS

Table:4 Sectorial Classification of a sample companies

Sectors	No. of Sample Companies	Percentage
Capital Goods	9	6.82
Healthcare	2	1.52
Infotech	7	5.30
Iron & Steel	6	4.55
Airlines	1	0.76
Auto	9	6.82
Auto Ancillary	4	3.03
Basic Materials	1	0.76
Cements	5	3.79
Construction	4	3.03
Consumer Durables	4	3.03
Diversified	9	6.82
FERT	6	4.55
FMCG	11	8.33
Gems & Jewellery	2	1.52
Hospitality	1	0.76
Infra Development	2	1.52
Media	1	0.76
Metals & Mining	3	2.27
NBFC	5	3.79
Oil & Gas	8	6.06
Packaging	1	0.76
Pharmaceuticals	8	6.06
Power	8	6.06
Retail Trade	5	3.79
Storage Batteries	1	0.76
Telecommunication	3	2.27
Textiles & Garments	1	0.76
Transport Logistics	2	1.52
Tyres & Tubes	2	1.52
Wholesale Trade	1	0.76
TOTAL	132	100.00

Source: Author's calculation

Table:5 Collinearity Diagnosis

Tolerance	VIF
.94	1.06
.87	1.15
.97	1.03
.88	1.14
.91	1.10
.92	1.09

Source: Author's calculation using SPSS

Table: 6 Regression Results

Variables	t	Sig.
(Constant)	5.788	.000
BI	-1.301	.196
BM	-1.350	.180
DU	-.134	.894
AGE	2.523	.013
FS	-1.772	.080
LIQ	.180	.858
FERT	-2.706	.008
TRANSPORT	-2.709	.008
BASICMAT	-2.319	.023
DIVERSIFIED	-2.316	.023
TELECOMM	-1.938	.056
TEXTILE	-2.811	.006
R Square		.37
Adjusted R square		.09

Source: Author's calculation using SPSS where shaded cells implies p value is significant at 5% level.

Appendix

Non-Financial Parameters	Frequency	Percentage
Corporate Governance		
Only Names are listed	189	98.44
Director's profile	173	90.10
Details about chairman	188	97.92
List of the key executives/senior management team	189	98.44
Audit Committee	187	97.40
Others	179	93.23
Quarterly compliance report on CG	144	75.00
Compensation	169	88.02
Remuneration policy	170	88.54
Whistleblower	175	91.15
Resignation of director	164	85.42
Policy on board diversity	172	89.58
Training policy for directors	157	81.77
Postal Ballot	179	93.23
Director report	182	94.79
Transcript of the conference call	151	78.65
Corporate/Investor Presentations	169	88.02
Both Proxy form & Attendance slip	172	89.58
Investor's Information		
Investor's basic details	171	89.06
Direct email hyperlink to an investor relation	184	95.83
The official address of the various corporate location	189	98.44
Registrar & transfer agent	171	89.06
Investor Feedback	62	32.29
Website feedback	51	26.56
Presentation		
Navigation is consistent through the site	189	98.44
One Navigation bar gives the complete access	187	97.40
Investor relation can be access from any part of website	187	97.40
Link to stock exchange websites	105	54.69
Quick links to News Release/Conference calls scripts/ FAQs	177	92.19

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Latest stock price on homepage	155	80.73
Number of clicks to get to press release	106	55.21
Version of annual reports PDF/HTML	180	93.75
Table of the contents in the Annual reports	168	87.50
Contact Us	191	99.48
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Multiple Languages/Countries	46	23.96
A version of websites	141	73.44
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Social Media	183	95.31
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Is the date/year of last website available	139	72.40
All content/items are up to date	122	63.54
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Source: Sandhu (2019)