

A study on the effect of corporate governance mechanisms on the discretionary disclosure of Indian firms

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ABSTRACT

This research is a study on the effect of corporate governance mechanisms on the discretionary disclosures of Indian firms. The study specifically examines the effect of internal corporate governance mechanisms such as the board characteristics, board functioning, ownership structure and audit committee characteristics on the extent of discretionary disclosures of a firm. Unlike many studies that focus on the effect of a unitary corporate governance mechanism, this study examines the impact of several corporate governance mechanisms in a single model and provides a framework to assess the impact on the extent of discretionary disclosures made by a firm.

The study examined the discretionary disclosure practices of firms listed in the Bombay Stock Exchange over a five year period (2006 – 2010). Valid and reliable measures and indicators of discretionary disclosure and corporate governance mechanisms were chosen based on a comprehensive review of literature. Discretionary

disclosure was measured using a self-constructed index comprising of 110 disclosure items. Rigorous statistical tests were employed to assess and validate the constructs used in the proposed model. PLS path modeling software was used to validate the proposed model.

The study found that discretionary disclosures of the firms increased over the period of study. However, the extent of disclosures was found to be relatively low. The findings of the study indicated that the corporate governance mechanisms of ownership structure, board characteristics and audit committee characteristics significantly influenced the extent of discretionary disclosures. However, the influence of board functioning on disclosures was not supported. The results of the study reiterated that improvement of internal corporate governance mechanisms would result in greater transparency and disclosures that would benefit all stakeholders of a firm.

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