

The Impact of Directors' Attributes on IFRS Fair Value Disclosure: An Institutional Perspective

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Abstract

Purpose

The current study investigates the impact of directors' attributes on the extent of compliance with IFRS fair value disclosure requirements. The attributes investigated include directors' human capital (accounting qualification) and social capital (political association), directors' share ownership and the power distance between the CEO and the rest of the Board members.

Design/methodology/approach

The study uses disclosure analysis to measure the extent of compliance with the fair value disclosure requirements of IFRS. Ordinary least squares (OLS) regression is used to test the relationship between the disclosure score and directors' attributes. Data were collected from the annual reports and websites of the sample companies.

Findings

Contrary to conventional belief, our findings suggest that directors' social capital and the power distance between the CEO and the rest of the Board act as more powerful factors than directors' human capital in explaining corporate mandatory disclosure. Specifically, our results indicate that powerful actors form a dominant coalition and co-opt influential constituents from the institutional domain to neutralize the effect of legal coercion and the accounting expertise of Board members and Big Four audit firms on the extent of compliance with institutional (fair value) rules.

Originality

The disclosure analysis contained in this study represents the first comprehensive analysis of the extent of compliance with the fair value disclosure requirements of IFRS. Furthermore, this study considers the impact of directors' social capital and finds that it is a more powerful determinant of the extent of compliance with IFRS as compared to human capital.

Keywords: IFRS, Mandatory Disclosure, Fair Value Accounting, Institutional Theory

1. Introduction

This study is motivated by the continued controversy surrounding fair value accounting (FVA) that has led to an unsettled policy debate amongst standard-setters and regulators around the world (Laux and Leuz, 2009; Filip et al., 2021). Proponents of FVA argue that it is a better predictor of the future cash flow prospects of a firm than historical cost accounting (HCA) (Bublitz et al., 1985; Barth, 1994; Carroll et al., 2003; Tahat et al., 2016; Filip et al., 2021) and is consistent with the ambition of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to ensure preparers provide information that possesses certain qualitative characteristics, such as predictivity and timeliness (Herrmann et al., 2006; McGregor, 2022). However, opponents of FVA are sceptical about the reliability of fair value estimation, especially when the valuation is not obtained directly from a quoted market and is, instead, formulated using various models that are often based on myriad assumptions (Holthausen and Watts, 2001; Ball, 2006; Benston, 2006, 2008; Hitz, 2007; Gwilliam and Jackson, 2008; Sellhorn & Stier, 2019). Therefore, although advocates of FVA argue that it contains important qualitative characteristics, critics argue that it is inconsistent with the IASB's objective of achieving transparency and comparability in financial statements (Palea and Maino, 2013)¹.

To overcome the shortcomings of FVA, several authors have emphasized the importance of the quality of fair value-related disclosure (Gwilliam and Jackson, 2008; Barth and Landsman, 2010; Bean and Irvine, 2015). Although a plethora of studies has examined corporate mandatory disclosure practices (Street et al., 1999; Tower et al., 1999; Street and Gray, 2002; Tsalavoutas, 2011; Glaum et al., 2013; Abdullah et al., 2015; Karim and Riya,

¹ To minimize the volatility in earnings and to reduce the opportunity for earnings management, some jurisdictions such as China and the US do not allow the use of FVA for certain assets (Herrmann et al., 2006; Peng and Bewley, 2010).

2022), compliance with fair value-related disclosure has not been fully investigated to date (Tsalavoutas et al., 2020). This study is a response to a call from Laux and Leuz (2009) and Tsalavoutas et al., (2020) to investigate the determinants of fair value-related disclosure and how they interact with the institutional framework. The call for research by Laux and Leuz (2009) and Tsalavoutas et al., (2020) is timely since there has been an increasing trend in the use of FVA for certain assets and liabilities in the accounting standards published by the FASB and the IASB (Hitz, 2007; Kumarasiri and Fisher, 2011; Jin et al., 2022; McGregor, 2022).

The literature has also reported that the unreliability relating to FVA is not always due to the subjectivity that is inherent within valuation models; rather, it is potential managerial bias in the valuation estimate that is considered to be the key risk factor (Holthausen and Watts, 2001; Benston, 2006, 2008; Gwilliam and Jackson, 2008; Sellhorn and Stier, 2019). This begs an important question of whether different directors' attributes have an impact on the quality of fair value disclosure. Although prior studies have reported that certain directors' attributes influence the extent of corporate compliance with International Financial Reporting Standards (IFRS), the exact nature of the relationship between the extent of corporate compliance with fair value-related disclosure requirements and various directors' attributes remains unexplored.

This study utilizes Oliver's (1991) framework of strategic response to institutional processes to investigate the impact of directors' attributes on the extent of compliance with IFRS fair value disclosure requirements. The attributes investigated include directors' accounting qualification, political representation in the Board, directors' share ownership and the power distance between the CEO/Chairman and the rest of the Board members. A novel feature of this research is that it employs the management science literature to consider the impact of directors' human and social capital on the extent of compliance with IFRS fair value disclosure requirements. We find that directors' accountancy qualification does not have an

impact on the extent of compliance, but their political association has a significant negative association. In addition, our findings show that directors' share ownership does not have any explanatory power while the voting power distance between the CEO/Chairman and the rest of the Board has a significant negative association with the extent of compliance. This latter finding questions the corporate governance codes of many countries that require the Board to hold a certain percentage of shares without considering the power balance amongst Board members.

The present study makes several contributions to the literature on corporate disclosure. The first contribution of the study is theoretical in nature as it applies Oliver's (1991) framework of strategic responses to institutional processes and provides new insights into corporate disclosure practices. In particular, the study identifies four key determinants of the extent of disclosure: size, enforcement, power distance and political representation. To the authors' knowledge, the latter two factors have never been examined in disclosure studies to date. Furthermore, this study considers the impact of directors' social capital and finds that it is a more powerful determinant of the extent of compliance as compared to human capital. Thus, our findings challenge the conventional focus of the corporate governance code in many countries on directors' share ownership and argue that more emphasis should be placed on power distribution amongst Board members. Finally, the disclosure analysis contained in this study represents the first comprehensive analysis of the extent of compliance with the fair value disclosure requirements of IFRS. In addition, the study focuses on the developing country of Bangladesh; most disclosure studies on Bangladesh were conducted during the previous Generally Accepted Accounting Principles (GAAP) regime and, thus, the extent of the mandatory disclosure of Bangladeshi-listed companies with IFRS is unknown.

Bangladesh was selected for this study for a number of reasons. First, during the consultation process for IFRS 13, concerns were raised about the suitability of FVA for developing countries. However, the IASB was of the view that constraints to the implementation of FVA were a global issue rather than unique to developing countries and, thus, no additional support was offered by the board to these countries (IFRS Foundation, nd). Thus, the findings of this study will be of interest to the IASB as it focuses on a developing country that has adopted IFRS 13 and other fair value-related standards relatively recently. Second, unlike some countries that have adopted the modified version of IFRS to restrict some provisions of FVA, the Bangladeshi standard-setter adopted IFRS as published by the IASB without any restrictions on fair value measurement. Therefore, this study provides a comprehensive analysis of fair value disclosure in a developing country context. Finally, Bangladesh has recorded a stable rate of economic growth over the last two decades and is currently ranked as the sixth fastest-growing economy in the world (World Bank, 2019) and has been identified as one of the ‘next eleven’ emerging economies (Goldman Sachs, 2011). Due to the growing importance of Bangladesh, the World Bank and the International Monetary Fund (IMF) have actively promoted the use of IFRS in the country (Mir and Rahaman, 2005). As most studies on disclosure in Bangladesh were conducted in the domestic GAAP era, findings on the implementation of IFRS will be of special interest to foreign investors and international agencies like the World Bank and the IMF.

The remainder of this paper is organized as follows. Section 2 discusses the controversies surrounding FVA. Section 3 presents an overview of Oliver’s (1991) framework of strategic responses to institutional pressure, while Section 4 details the hypotheses that are tested in the current paper. The sample and research method are described in Section 5. Section 6 presents the results from univariate and multivariate testing, along with robustness checks. A

discussion of the results is provided in Section 7, while Section 8 offers some concluding observations.

2. Controversies surrounding Fair Value Accounting

Since the mid-19th century, accounting thinkers around the world have debated whether assets in companies' Balance Sheets should be reported at historical cost or fair market value and how changes in value should be accounted for (Richard, 2004; Georgiou and Jack, 2011). Two schools of thought emerged from the debate; one has supported fair value accounting (FVA), whilst the other has opposed it. The proponents of FVA have noted that, unlike HCA, FVA has explanatory power with regard to a firm's share price, market return and return on investment (Bublitz et al., 1985; Barth, 1994; Carroll et al., 2003; Tahat et al., 2016). Furthermore, it was noted that firms may benefit from a lower cost of borrowing and enhanced borrowing capacity when non-current assets are reported at fair market value instead of historical cost (Missonnier-Piera (2007).

However, opponents of FVA warned about potential managerial bias in valuation, especially when valuation is not obtained directly from a quoted market (Holthausen and Watts, 2001; Ball, 2006; Benston, 2006, 2008; Hitz, 2007; Gwilliam and Jackson, 2008; Jin et al., 2022). As an example of the severity of this risk, several authors have observed the fair value activity of the US energy company Enron prior to its collapse and attributed the energy giant's failure to fair value misuse (Benston, 2006; Gwilliam and Jackson, 2008). In addition, studies have noted that Enron's auditor failed to detect fair value misuse and that the process of obtaining reasonable assurance about the accuracy of fair value measurement and disclosure is very challenging for statutory auditors and, may ultimately, increase the cost of auditing (Benston, 2008; Kumarasiri and Fisher, 2011; Griffin, 2014; Yao et al., 2015; Ahn et al., 2020). The literature has also noted the difficulty faced by shareholders monitoring managers'

performance when FVA can make year-on-year earnings volatile (Benston, 2006, 2008; Georgiou, 2018). To minimize the volatility in earnings and to reduce the opportunity for earnings management, some jurisdictions such as China and the US do not allow the use of FVA for certain assets (Herrmann et al., 2006; Peng and Bewley, 2010).

Against the backdrop of such unsettled policy debate, a new body of literature has started to emerge that raises questions about the suitability of FVA in emerging markets (He et al., 2012; Qu and Zhang, 2015; Nguyen, 2019). These authors have argued that risks of earnings manipulation, weak governance, political factors such as state intervention and a shortage of qualified accountants are likely to hinder the full implementation of FVA in emerging markets (He et al., 2012; Qu and Zhang, 2015; Nguyen, 2019). Indeed, to minimize the volatility in earnings and to reduce the opportunity for earnings management, some jurisdictions such as China do not allow the use of FVA for certain assets (Herrmann et al., 2006; Peng and Bewley, 2010). However, some developing countries, including Bangladesh, adopted IFRS without such restrictions. Therefore, fair value accounting practices by Bangladeshi listed companies beg academic attention.

3. Theoretical Underpinning: Oliver's (1991) Framework of Strategic Responses to Institutional Pressure

In the extant literature, there are no theoretical justifications for assuming that some variables impact the extent of disclosure (Wallace and Naser, 1995). This lack of theoretical guidance has often led to a reliance on 'economic theory, intuition and (previous) empirical evidence' (Owusu-Ansah, 1998, p. 610) to develop hypotheses. One potential reason for the lack of a relationship between theory and empirical studies could be that the theoretical underpinning of voluntary disclosure was replicated in mandatory disclosure studies². This study argues that

² For example, Cooke (1992) examined both the voluntary and mandatory disclosure behaviour of Japanese-listed companies. The study revealed that manufacturing companies were different from non-manufacturing companies in terms of voluntary disclosure only, with manufacturing companies disclosing more information voluntarily.

institutional theory can explain corporate mandatory disclosure behaviour. Studies that have sought to explore institutional factors that influence corporations, or that have tried to understand why organizations with common characteristics behave similarly, have tended to employ different variants of institutional theory (for example, Mezas, 1990; Haveman, 1993; Guerreiro et al., 2012; Osinubi 2016). We utilize Oliver's (1991) framework of strategic response to institutional processes in order to investigate four directors' attributes on the extent of compliance with IFRS fair value disclosure requirements. These attributes include directors' accounting qualification, political representation in the Board, directors' share ownership and the power distance between the CEO/Chairman and the rest of the Board members.

Oliver (1991) extended the earlier work of Meyer and Rowan (1977) and DiMaggio and Powell (1983) on institutional rules and institutional isomorphism and argued that five institutional antecedents determine whether an entity will conform or resist institutional pressures: cause, constituents, content, control and context³. She provided two dimensions for each of the five antecedents and put forward ten hypotheses that predict whether an organization is likely to acquiesce, compromise, avoid, defy, or manipulate the institutional pressures, as shown in Table 1. The introduction of avoidance, defiance and manipulation within the model suggests that organizations are not always passive or powerless, as argued by previous institutional theorists (for example, Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Instead, Oliver (1991) argued that organizations have a choice and respond strategically to institutional pressures and that the ultimate response depends on their exposure to ten predictive factors.

Similarly, after observing inconsistent results with the applied theoretical framework, Owusu-Ansah (1998) argued that agency theory could better explain voluntary disclosure than mandatory disclosure.

³ To support these five antecedents Oliver (1991, p. 159) argued: 'Organizational responses to institutional pressures toward conformity will depend on why these pressures are being exerted, who is exerting them, what these pressures are, how or by what means they are exerted, and where they occur'.

Insert Table 1 about here

The first antecedent assumes that there are two possible causes or mechanisms whereby external actors (for example, the state) exert pressure on institutions by means of social and economic fitness. Based on this argument, the first two hypotheses of the framework predict that an organization is likely to resist institutional pressure if it perceives that the degree of social legitimacy and economic efficiency attainable from conformity to that pressure is low. Thus, by incorporating social acceptance in addition to economic accountability, the first two hypotheses of Oliver's framework provide a wider context to legitimacy than was previously available from institutional theory (Suchman, 1995)⁴.

The second antecedent constituents encompass various interest groups who impose different rules and expectations on an entity. The third hypothesis argues that an organization is likely to resist institutional rules if there are multiple and conflicting pressures exerted on the organization⁵. However, the fourth hypothesis predicts that the likelihood of resistance is low if the organization is dependent on the pressuring constituent for the resources it needs to survive. These two hypotheses are consistent with the development in institutional theory that has challenged the conventional notion of institutional pressure being monolithic and coherent and, instead, established that organizations face simultaneous, and often conflicting, pressures (Pfeffer and Salancik, 1978; Scott, 1994; Zilber, 2011). Conforming to one pressure increases the likelihood that the organization will defy another pressure (Pfeffer and Salancik, 1978) owing to the depletion of resources resulting from the conformity (Oliver, 1991). Therefore, in

⁴ Suchman (1995) observed three types of organizational legitimacy in institutional theory: (i) pragmatic, (ii) moral, and (iii) cognitive. However, Suchman (1995) alleged that institutional theorists have paid little attention to the definition of legitimacy.

⁵ This is known as multiplicity. Oliver (1991, p. 162) defined multiplicity as 'the degree of multiple, conflicting, constituent expectations exerted on an organization'.

multiplicity, institutional actors will involve themselves in conflict, but only dominant actors will be able to use multiplicity as an opportunity to further their interests (Creed et al., 2002) or to protect the status quo (Zilber, 2011).

Oliver (1991) also argued that if an organization is being pressured to conform to a rule that is not consistent with the objectives of the organization, the likelihood of resistance will be high⁶. That is, organizations will be happy to acquiesce to external pressures only when the pressure is compatible with organizational goals, but organizations may dismiss, challenge, or attack these requirements when consistency is very low (Oliver, 1991)⁷. In addition, the propensity of resistance to an institutional rule is likely to be high if the institutional rule threatens an organization's right to govern itself (Oliver, 1991). The probability of acquiescence is expected to be higher if the institutional rule does not constrain an organization's decision-making power in key areas, such as hiring, compensation and promotion (Oliver, 1991). Organizations may adopt ceremonial conformity and other avoidance strategies when autonomy is threatened (Oliver, 1991).

Control is the penultimate institutional factor in the framework. This factor argues that there are two means by which institutional rules can be imposed on organizations: legal coercion and voluntary diffusion. When there is a legal mandate for institutional rules, organizational resistance is likely to be low as organizations are aware of the consequences of nonconformity (Oliver, 1991). In this regard, Thornton et al., (2005) argued that prior

⁶ An example of this is the resistance of the US oil and gas industry to the Statement of Financial Accounting Standard (SFAS) 19 in the late 1970s because the industry thought conformity with the standard would threaten its existence (Gorton 1991; Nobes and Parker, 2010).

⁷ For example, European banks did not object to the mark-to-market requirements of IAS 39 at the time of rising security prices (as it allowed them to recognize a profit). However, at the time of falling security prices, the accounting standard became inconsistent with banks' objectives and, thus, banks attacked the source of the pressure (the IASB) in an attempt to change the requirements of IAS 39 in their favor (Barth and Landsman, 2010). As predicted by Oliver (1991, p. 165): 'under these conditions, organizations may strive to manipulate the rules that affect them (e.g. through lobbying)'.

experience of being inspected, warned, or penalized by regulators tends to affect the compliance behaviour of organizations. Thus, for legal coercion to be effective, mechanisms for compliance (for example, sanctions and fines for non-compliance) have to be in place (Oliver, 1991). However, this does not imply that organizations will not conform to institutional norms when there is no legal mandate, as organizations may mimic each other. An entity's decision about whether to conform to an institutional rule is greatly influenced by the extent to which the rule has already been diffused in the environment in which the entity operates (DiMaggio and Powell, 1983; Oliver, 1991). That is, organizations tend to 'follow the leader', leading to mimetic isomorphism (Haveman, 1993). For example, Guerreiro et al. (2012) observed the voluntary adoption of IFRS by large unlisted companies in Portugal and argued that large companies attempted to enhance their prestige by adopting IFRS voluntarily because IFRS was dominant in their organizational field.

Context is the final predictive factor in Oliver's (1991) strategic response model and two dimensions were hypothesized to explain it: environmental uncertainty and environmental interconnectedness. With regard to uncertainty, Oliver (1991) argued that an organization will show less resistance to institutional rule when the organization cannot predict future outcomes. This argument is based on the notion that organizations prefer predictability, stability and certainty (Pfeffer and Salancik, 1978; DiMaggio and Powell, 1983) and conformity can reduce the risk of uncertainty (Oliver, 1991). However, in addition to acquiescence, compromise and avoidance strategies are most likely to occur when uncertainty is high, but organizations are unlikely to defy or manipulate the institutional pressure (Oliver, 1991). An interesting consequence of uncertainty is that it encourages organizations to mimic one another (DiMaggio and Powell, 1983; Galaskiewicz and Wasserman, 1989). In the event of uncertainty, mimicking other, relatively stable, organizations is considered an effective response as it would save the

organization resources that it would otherwise utilize in searching for a solution to achieve stability (Haveman, 1993; Li and Lee, 2010).

The second dimension of context is interconnectedness. Oliver (1991) argued that there is a significant correlation between interconnectedness with the environment and acquiescence as organizations are more likely to appreciate the values and norms of the environment. Furthermore, voluntary diffusion of institutional rules is facilitated by interconnectedness (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) as it provides a relational channel through which institutional rules can be diffused (Oliver, 1991)⁸.

4. Hypotheses Development

The content of institutional pressures is a precursory element of the strategic response to those pressures (Oliver, 1991). Specifically, Oliver (1991) identified constraint and consistency as two predictive factors of institutional response. With regard to the first factor, the author surmised that organizations are likely to withstand institutional pressures if those pressures impose discretionary constraints on the organization. In a similar vein, Pfeffer and Salancik (1978, p. 94) argued that ‘compliance is a loss of discretion, a constraint and an admission of limited autonomy’. Compliance with IFRS is likely to be constrained by two primary factors: costs and human resources (Chorafas, 2006; Dunne et al., 2008). For example, the role of the accountants in the implementation of IFRS in Turkey was acknowledged by Misirlioglu et al., (2013)⁹. Similarly, prior studies on disclosure have hypothesized that the expertise of the Board members, as measured by their accounting qualification(s), has a positive impact on the level of compliance owing to their training and skills in detecting non-compliance and misstatements

⁸ For example, the voluntary adoption of non-local GAAP by European companies could be partly explained by their geographically dispersed operations (Cuijpers and Buijink, 2005).

⁹ Their finding was based on six interviews with auditors in Turkey. In this context, auditors appreciated the technical knowledge and experience of company accountants.

(Ahmed and Nicholls, 1994; Mangena and Pike, 2005; Abdullah et al., 2015). Measuring fair value requires complex and subjective estimations (Griffin, 2014) and, therefore, the accounting skill of Board members is particularly relevant for the implementation of FVA in Bangladesh.

The aforementioned argument gives rise to the question of how companies are likely to respond when they are constrained to employ experts to ensure compliance with IFRS. Institutional theorists argue that constraint interacts with legitimacy (Scott, 1987; Oliver 1991). For example, Scott (1987) argued that hospitals are likely to comply with constraining regulations to employ professionally qualified staff, as non-compliance would threaten their legitimacy as an institution. Similarly, this study argues that companies that are seeking legitimacy are likely to employ a Chartered Accountant (CA) to ensure the legitimacy of their financial reporting. While some prior studies (for example, Mangena and Pike, 2005; Hasan et al., 2008) have reported a positive relationship between directors' accounting qualification(s) and the extent of disclosure, others have reported a very weak association (for example, Ahmed and Nicholls, 1994) or a negative association (for example, Abdullah et al., 2015). Abdullah et al. (2015, p. 341) attempted to explain this anomaly when they argued that 'board members may also use such expertise opportunistically, by applying their knowledge of legal loopholes which may be used to avoid mandatory disclosure'. This explanation was supported by Nurunnabi (2015), who argued that a lack of professional ethics amongst company accountants had hindered the implementation of IFRS in Bangladesh. Furthermore, some commentators have argued that the risk of manipulation by company accountants is higher if it is related to FVA (Benston, 2006, 2008; Gwilliam and Jackson, 2008). Thus, based on the prior literature, this study predicts that having a CA on the Board of Directors will have an effect on the level of compliance:

H₁: Having a CA on the Board of Directors is associated with the level of compliance with fair value disclosure requirements.

In terms of the second predictive factor pertaining to content, Oliver (1991) drew a connection between the consistency of institutional pressures and organizational goals. Specifically, she argued that an organization is likely to repel institutional pressures if they contradict the goals of the organization. Thus, organizations are likely to adopt defiance and manipulation as strategies when consistency is low (Oliver, 1991). Whilst the primary objective of directors is assumed to be the maximization of shareholder wealth, the capital structure of Bangladeshi companies needs due consideration where owners also act as directors. In Bangladesh, a majority of companies are owned and managed by families, as opposed to the institutional ownership and professional salaried directors that are characteristic of companies in many Western countries (Uddin and Hopper, 2001; Uddin, 2005; Rashid, 2016). Rashid (2016, p. 610) observed that ‘there is a high degree of concentrated ownership by founding family members; this leads to a high degree of ownership control’. Sobhan and Werner (2003, as cited in Rashid, 2016) reported that about 73.0% of non-bank listed companies in Bangladesh are dominated by directors who are sponsor-shareholders and are related to the same family. Furthermore, the director’s stake in their company is likely to increase following a recent directive issued by the Bangladeshi Securities and Exchange Commission (BSEC), which requires that directors hold at least 30.0% of the total issued share capital of the company (BSEC, 2018). Such capital and Board structures have implications for the level of disclosure. For example, Haniffa and Cooke (2002) and Nagar et al., (2003) argued that directors are reluctant to disclose private information because such disclosures reduce their private control.

Another deterrent to disclosure for owners who are also directors could be increased tax charges resulting from increased disclosure which will minimize their wealth (Osinubi, 2016). Furthermore, directors in owner-managed companies have access to inside information

and, therefore, increased Board shareholding is likely to reduce information disclosure (Archambault and Archambault, 2003; Osinubi, 2016). Therefore, this study argues that since fair value-related disclosure of IFRS often requires information about the market value of assets and liabilities, such requirements are inconsistent with the objectives of a Board that holds a large block of shares in the reporting company and aims to protect their wealth and family control.

The effect of ownership concentration on voluntary and mandatory disclosure has been tested in many previous studies (Haniffa and Cook, 2002; Chau and Gray, 2010; Allaya et al., 2022). For example, Chau and Gray (2010) reported a negative association between voluntary disclosure and family ownership in Hong Kong when the extent of ownership was low or moderate¹⁰. Haniffa and Cooke (2002) reported that Malaysian companies with family members on the Board disclosed significantly less voluntary information. A similar association between the share ownership of the Board and the level of voluntary disclosure has also been reported for Bangladesh (Rouf and Harun, 2011). Some studies have also investigated the relationship between ownership concentration and the level of the mandatory disclosure requirements of IFRS. For example, Osinubi (2016) did not find any association between Board shareholding and the level of mandatory disclosure in Nigeria, although Abdullah et al., (2015) reported a negative relationship between family ownership and compliance with the mandatory disclosure requirements of IFRS in Malaysia. Based on prior literature, the second hypothesis identified for investigation is:

H_{2a}: There is a negative association between the share ownership of directors and their family members and the level of compliance with the fair value disclosure requirements of IFRS.

¹⁰ However, they argued that when family ownership is too high, external shareholders feel threatened and companies tend to increase disclosure to reassure external owners. Consistent with this argument, Owusu-Ansah (1998) found that the extent of mandatory disclosure was positively associated with the proportion of shares held by corporate insiders in Zimbabwe.

To test this hypothesis, directors' shareholding was measured by aggregating the shareholding of each director and their family members (Finkelstein, 1992). However, this measure does not consider the effect of having a director with dominant influence or the consistency of power distribution among the Board of Directors. Jensen (1993) argued that directors possess a great deal of power and authority if they assume the dual role of Chief Executive Officer (CEO) and Chairman. The separation of the roles of CEO and Chairman is at the heart of corporate governance codes in many countries, including Bangladesh¹¹. However, in Bangladesh, these two roles are typically held by the same family, thus allowing them to create a dominant coalition and exert significant influence over the rest of the Board¹². Chau and Gray (2010, pp. 95-96) argued that 'in the presence of a dominant CEO/Chairman, outside directors are perceived to have reduced influence in strengthening the quality of financial disclosure'. This effect of having an influential CEO/Chairman on the quality of financial disclosure is likely to be more pronounced in Bangladesh where the power distance is large. Hofstede et al. (2010) argued that, in countries with a large power distance, employees are afraid to challenge their boss and prefer an autocratic or paternalistic relationship with upper management. Consistent with this argument, Rashid (2011) observed that external Board members of Bangladeshi-listed companies have very little influence on monitoring and disciplining the Board. In this regard, Finkelstein (1992) stressed the importance of power distribution amongst directors in organizational studies. Specifically, the author argued that shareholdings are good indicators of power and that shares held by family members should be taken into account. In order to understand the effect of having an influential CEO/Chairman on the level of mandatory disclosure, this study measured the power distance between the

¹¹ The Bangladesh Corporate Governance Code states that the positions of Chairman and CEO should be held by two different individuals (BSEC, 2012).

¹² Rashid (2016) made a similar observation that the CEO and Chairman were often related and belonged to one family in Bangladesh (for example, the father was the Chairman and the son was the CEO).

CEO/Chairman and the rest of the Board. The effect was measured as the number of shares (voting power) the CEO/Chairman and their family members held compared to the Board as a whole, including their family members¹³. Thus, hypothesis H2_b is:

H_{2b} The power distance between the CEO/Chairman and the rest of the Board is significantly negatively associated with the level of compliance with fair value disclosure requirements.

Oliver's third hypothesis is derived from the argument that institutional constituents may have multiple conflicting demands on the organization and the degree of resistance to those pressures is positively correlated with the degree of constituent multiplicity (Oliver, 1991). This result stems from the fact that, in an environment where pressures from different constituents are not coherent or unitary, conforming to one pressure often means defiance or ignorance with respect to another pressure (Pfeffer and Salancik, 1978), as compliance with the former would impede the ability of the organization to conform to the latter (Oliver, 1991). Although H2_a notes the conflicting interests of shareholders who demand disclosure with those of the Board of Directors that are likely to prefer secrecy in order to maintain family control and protect their interest, regulators (for example, the Dhaka Stock Exchange (DSE)) and BSEC) and auditors will try to ensure that (i) companies comply with the mandatory disclosure requirements of IFRS; and (ii) shareholders' right to receive that information is protected. Dechow et al. (1996) reported that companies that are dominated by authoritarian management are more likely to face enforcement actions from regulators. Oliver (1991) argued that, under such conditions, companies may attempt to manipulate the institutional rules through lobbying. In fact, findings from Zilber (2011) regarding the Israeli technology industry suggested that powerful actors may use organizational multiplicity as a tool to protect their status quo. One of

¹³ For example, if the CEO, the Chairman, and their family members own X% of total issued shares and the rest of the Board and their family members own Y% of shares, the measure is: $PD = \frac{X}{X+Y}$.

the tactics companies may adopt to manipulate the pressures is co-option by importing influential constituents (Oliver, 1991). Specifically, Oliver (1991, p. 157) argued that ‘an organization may, for example, attempt to persuade an institutional constituent to join the organization or its Board of Directors’.

Furthermore, Hypothesis 1 predicts that having a CA on the Board is likely to have an impact on the level of fair value-related disclosure. However, Stevenson and Radin (2009) affirmed that, in the presence of a power imbalance in the Board of Directors, the human capital of directors¹⁴ can do very little to restore balance and that the network ties of CEO/Chairman with influential people encourage them to exert influence on the Board. These authors argued that directors’ social ties with influential actors work as social capital, which is a stronger factor in exerting influence on the Board than human capital. As a result, such network ties are perceived to weaken the strength of Board monitoring (Fracassi and Tate, 2012). In fact, social theorists have argued that there is a need for research on how powerful groups use accounting to maintain their status quo. For example, Jack (2016, p. 62) argued that:

‘[T]he role of the accounting researcher can be to investigate and expose situations in which dominant groups use accounting to claim entitlement to an unfair distribution of wealth, and the ineffectuality of other social groups to prevent this appropriation of resources. It can also be to investigate and expose how certain groups use accounting technologies to establish dominance and attempt to legitimate their position and practices’.

In light of the above, the present study considers the effect of having a powerful constituent on the Board on the level of compliance with fair value disclosure requirements. Additionally, politically connected managers can use their political ties to gain a tax advantage for their organization (Wu et al., 2012) and can secure preferential access to bank finance (Claessens et al., 2008)¹⁵. Gul (2006) and Tee et al. (2017) also found that auditors in Malaysia

¹⁴ Such as possessing an accountancy qualification.

¹⁵ Gounopoulos et al., (2017) also argued that politically connected firms have bargaining power and that political donations can reduce initial public offering (IPO) underpricing.

charge a higher fee if the client is a politically connected company due to the increased risk of misstatements. In a Bangladeshi context, Nurunnabi (2015) reported that political connections have been used to manipulate the BSEC. Specifically, he found that a close relationship with politicians allowed regulators and accounting professionals to continue their malpractice. However, the effect of political connections on the level of disclosure has, to date, been overlooked in disclosure studies. This study aims to fill this gap and argues that having a politically connected director on the Board will have a negative impact on the level of compliance with the mandatory disclosure requirements of IFRS, as companies will be able to avoid regulatory scrutiny by using their political proximity. This argument leads to the following hypothesis:

H₃: Having political representation on the Board is significantly negatively associated with the level of compliance with the fair value disclosure requirements of IFRS.

Control Variables

Table 2 summarizes the independent variables that were constructed to represent the ten predictive factors hypothesized by Oliver (1991). In addition to the aforementioned variables pertaining to the predictive factors of constraint (CA on the Board), consistency (directors' shareholding and power distance) and multiplicity (political representation), we controlled for the remaining seven predictive factors in Oliver's (1991) framework. These variables were chosen based on prior literature. For example, to describe dependence as a predictive factor of a strategic response, Oliver (1991) reiterated the hypothesis of DiMaggio and Powell (1983) who argued that an organization is likely to conform to institutional rules if it is dependent on the pressuring institution. In the same vein, many prior studies (Cooke, 1992; Ahmed and Nicholls, 1994; Al-Shammari et al., 2008) hypothesized that dependence on banks as measured by gearing ratio has an impact on the extent of disclosure, which was used as a proxy for

dependence in this study. Similarly, the size of an organization is often used in voluntary and mandatory disclosure studies as a proxy for legitimacy. There are several reasons why larger firms are expected to disclose more information than smaller firms. First, the lower incremental costs of disclosure by larger firms raise the expectations of regulators (Lang and Lundholm, 1993). Second, the legal costs (litigation claims) of non-compliance are usually higher for larger firms than for smaller firms (Skinner, 1994); and, finally, larger firms tend to disclose more to avoid public criticism and government intervention (Watts and Zimmerman, 1978). In addition to legitimacy, Oliver (1991) identified economic efficiency as a cause of institutional pressure. Oliver (1991) predicted that the likelihood of organizational resistance to institutional pressures is negatively correlated with the degree of economic gain attainable from conformity to those pressures. That is, the lower the degree of economic gain attainable, the more likely an organization will compromise, avoid, defy, or manipulate the institutional pressures (Oliver, 1991). Therefore, consistent with previous studies (Singhvi and Desai, 1971; Wallace and Naser, 1995; Owusu-Ansah, 1998; Akhtaruddin, 2005; Aljifri and Hussainey, 2007) we used profitability to control for economic efficiency.

Insert Table 2 about here

With regard to enforcement as a proxy for coercion, there is a lack of guidance in the extant literature on the logical construction of this variable¹⁶. However, the literature suggests that enforcement has an impact on the quality of reported earnings (Oz and Yelkenci, 2018).

16 For example, see Hope (2003), who developed a comprehensive index based on several country-level factors including audit fees. By contrast, based on enforcement activities, Osinubi (2016) divided his sample between strong, semi-strong and weak regulatory regimes to investigate whether legal coercion influenced the level of compliance with IFRS. A similar approach was adopted by Hasan et al. (2008) who compared the extent of corporate disclosure in Bangladesh between 1991, which was classified as a weak regulatory regime, and 1998, which was categorized as a time when the regulatory regime was strong.

This study argues that since BSEC is the sole body responsible for enforcing IFRS in Bangladesh; its enforcement action is likely to have an impact on the level of compliance and a measure of coercion in this context should appropriately capture BSEC's enforcement activities. In this regard, Thornton et al. (2005) argued that organizations' compliance behaviour is likely to be affected by prior experience of being inspected, warned, or penalized by regulators. Therefore, the approach adopted in the current study was to collect a list of offenders from BSEC's website to construct a dummy variable for coercion. BSEC issued official letters to companies that violated regulations asking them to explain their non-compliance. A list of companies that had been warned by BSEC in the three years before the reporting date was collected. If coercion is strong and successful, it is reasonable to expect that companies that have been warned will exhibit a higher level of compliance. However, if the extent of coercion is weak, companies may adopt a defiance strategy, as argued by Oliver (1991). In addition to legal coercion, voluntary diffusion could be a source of institutional pressures and expectations (Oliver, 1991). Supporting DiMaggio and Powell's (1983) mimetic isomorphism, Oliver (1991) argued that the extent of conformity with institutional rules also depends on the extent that those rules have already been diffused in the organization. In this regard, the role of the Big Four audit firms in promoting IFRS across the world has been highlighted in several studies (e.g. Tsalavoutas, 2011). In the wake of widespread IFRS adoption, the Big Four audit firms have started to develop an IFRS-based global infrastructure to support their partner firms across the world in IFRS compliance and to ensure consistent interpretation of these standards (Tokar, 2005; Hoogendoorn, 2006). Therefore, in line with previous empirical findings (Ahmed and Nicholls, 1994; Hoogendoorn, 2006, Palmer, 2008; Glaum et al., 2013) the variable Big Four was chosen to capture the effect of diffusion. Finally, consistent with prior studies, liquidity (Wallace et al., 1994; Abd-Elsalam and Weetman, 2007; Al-Akra et al., 2010) and multinationality (Raffournier, 1995; Zarzeski, 1996; Archambault

and Archambault, 2003; Guerreiro et al., 2008) were chosen as proxies for uncertainty and interconnectedness, respectively.

5. Research Method

5.1 Disclosure Checklist and the Dependent Variable

The number of items disclosed by a company can be very large and, therefore, some selection criteria are needed to guide the items that should be included in the index (Marston and Shrives, 1991). In order to contribute to the extant literature, this study measures the extent of compliance with the fair value disclosure requirements of IFRS. Thus, the accounting standards that were analyzed were chosen based on the following criteria: (i) the standard requires or allows fair value measurement and is within the scope of *IFRS 13 — Fair Value Measurement* and (ii) the standard has been adopted in Bangladesh. Using these criteria, the following accounting standards were selected for inclusion in the index: (i) *IAS 16 — Property Plant and Equipment*, (ii) *IAS 38 — Intangible Assets*, (iii) *IAS 40 — Investment Property*, (iv) *IAS 41 — Agriculture*, (v) *IFRS 7 — Financial Instruments — Disclosure*, (vi) *IFRS 12 — Disclosure of Interests in other Entities* and (vii) *IFRS 13 — Fair Value Measurement*¹⁷. In those instances where IFRS/IAS require more than one disclosure, each disclosure requirement was treated as one item¹⁸. Table 3 shows the final index, which consisted of 144 items. The number of items varies from three (IFRS 12) to 65 (IFRS 7).

¹⁷ *IFRS 5 — Non-Current Assets Held for Sale and Discontinued Operations* was not included as it required fair value in unusual circumstances and, therefore, was unlikely to be applicable. Furthermore, the hedge accounting requirements of IFRS 7 are more likely to apply to financial companies. Therefore, disclosure requirements relating to hedge accounting were excluded from the index. A disclosure analysis confirmed that none of the sample companies applied IFRS 5 and none of them engaged in hedging. Thus, the exclusion of these items is appropriate. Additionally, Paragraphs 6 and 7 of IFRS 13 explicitly exclude the following standards from its scope in terms of disclosure requirements: (i) *IFRS 2 — Share-Based Payments*, (ii) *IAS 17 — Leases*, (iii) *IAS 2 — Inventories*, (iv) *IAS 36 — Impairment of Assets*, (v) *IAS 19 — Employee Benefits*, and (vi) *IAS 26 — Accounting and Reporting by Retirement Benefit Plans*. Therefore, these standards were excluded from the study.

¹⁸ Particular attention was paid to the duplication of disclosures required by different accounting standards (Tsalavoutas et al., 2010). However, duplication was not an issue for the disclosure items included in the index.

Insert Table 3 about here

In line with the steps taken in prior studies to validate the disclosure index (Hassan and Marston, 2010), the initial checklist used in this study was checked by a Chartered Accountant in Bangladesh to ensure that the items included in the index are applicable in Bangladesh. Since all of the items were taken from standards published by the ICAB, no discrepancy arose. The disclosure checklist was also sent to a Chartered Accountant with a Big Four firm in London. The number of items from each accounting standard was reviewed by the expert and no revision to the index was suggested. To ensure the reliability of the scoring, a second researcher examined five randomly selected annual reports and scored them using the disclosure checklist. The results of the analysis were then compared with those of the first researcher. This procedure indicated that there was a high level of agreement between the two results.

5.2 Sample

Table 4 provides details of the sample that was used in the current study. In particular, Panel A of the table shows how the final sample was derived, while Panel B details the distribution of the sample companies across industries. The table shows that there were 263 companies listed on the DSE throughout the year 2014, of which 108 were financial companies. Financial companies were excluded from the sample as they are required to comply with separate rules and guidance issued by their relevant regulators when preparing their accounts. An attempt was made to collect all of the remaining 155 annual reports from either the company's website, the DSE library or the BSEC's library. However, it was not possible to collect the annual reports of eight companies. A further 23 annual reports were rejected from the sample because there were missing pages or the reports did not contain notes to the accounts. The remaining 124 annual reports were then analyzed to check for compliance with the disclosure checklist. Fifty-two companies did not have any fair value items required or permitted by the selected

standards. Thus, the final sample consisted of 72 companies. Panel B of the table shows that the final sample of companies was drawn from 14 different industrial sectors.

Insert Table 4 about here

5.3 Data Collection and Statistical Tests

Many disclosure studies have relied on databases to collect data about independent variables (for example, the size and profitability of the sample companies). However, Stadler and Nobes (2016) questioned the reliability of data collected from databases and argued that hand-collected data should be used. Therefore, data for the independent variables were hand-collected from the annual reports and websites of the sample companies and regulators' websites. Similar to prior studies, both univariate and multivariate methods were used in the present study. In particular, the Pearson product moment correlation and Spearman's rank correlation coefficient were used to describe the linear relationship between the disclosure score and each independent variable and ordinary least squares (OLS) regression was used as a multivariate tool to understand the combined effect of the independent variables on the dependent variable. Specifically, the following model was estimated:

$$C_j = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k + \varepsilon \quad [1]$$

where C_j represents the total index score, β_0 is a constant term; $\beta_1 \dots \beta_k$ are the coefficients of the independent variables $X_1 \dots X_k$; and ε is the error term, which is assumed to be independently and identically distributed.

6. Findings

6.1 Descriptive Statistics

Table 5 presents descriptive statistics for the overall compliance score, as well as the compliance scores of the individual standards that were investigated: IAS 16, IFRS 7, IFRS 13, IAS 40 and IFRS 12¹⁹. The overall mean level of compliance was only 39.0%. This mean score suggests that Bangladeshi-listed companies were not in full compliance with the fair value disclosure requirements of IFRS. However, the level of compliance varied widely across the sample companies, from a low of 8.3% to a high of 62.5%. This wide variation in compliance is reflected in the standard deviation of the overall compliance score, which is high at 12.9%. The table also shows that the compliance score is normally distributed, as the skewness, kurtosis and Anderson-Darling statistics are not statistically significant.

Insert Table 5 about here

The compliance score reported here can be compared with studies that have investigated the level of compliance with disclosure requirements in other developing countries. For example, Dawd (2014) found a mean compliance score of 58.0% in Kuwait (Dawd, 2014), while Abdullah (2011) documented that the mean compliance was as high as 88.0% in Malaysia. The level of compliance reported in this study is consistent with Akhtaruddin (2005) who reported a mean level of compliance in Bangladesh of only 44.0%²⁰. However, a conflicting result was documented by Ali et al. (2004) who reported that compliance in Bangladesh was as high as 78.0%²¹. Thus, it appears that, in prior studies, a low level of compliance with fair value disclosure requirements was masked by a higher level of disclosure in other areas, including voluntary items.

¹⁹ Although *IAS 41 — Agriculture* and *IAS 38 — Intangible Assets* were part of the disclosure index, none of the sample companies applied these standards.

²⁰ However, it should be noted that, like many prior studies on disclosure, Akhtaruddin (2005) included disclosure items from the Companies Act and listing rules in addition to disclosure items from accounting standards.

²¹ This study measured compliance with 14 accounting standards by companies in Bangladesh, India, and Pakistan.

Panel B of the table shows the mean level of compliance with individual standards. Specifically, the table shows that the mean scores for IAS 16, IFRS 7, IFRS 13, IAS 40 and IFRS 12 were 71.2%, 39.5%, 19.4%, 75.0% and 100.0%, respectively. However, it should be noted that only one company applied IAS 40 and IFRS 12 and the number of applicable items for each was only three and two, respectively. When these standards are excluded, the level of compliance with IAS 16 is the highest at 71.2%, followed by IFRS 7 (39.5%) and the recently adopted IFRS 13 (19.4%). The descriptive statistics for the continuous and categorical variables are presented in Table 6. The variable directors' shareholding shows that, on average, the Board of Directors and their family members held 40.6% of total issued share capital. Moreover, the mean value of 78.1% for power distance reveals that a significant proportion of Board members' shares were held by the CEO/Chairman and their family members, creating a power imbalance within the Board. It can also be seen from the Table (Panel B) that a majority of the sample companies (68.1%) did not have a CA on the Board. The table also shows that 27.8% of the sample firms had political representation on the Board and that only 16.7% were warned by BSEC for non-compliance during the three years of observation (enforcement). Finally, 19.4% of the sample companies were audited by a Big Four-affiliated audit firm.

Insert Table 6 about here

6.2 Univariate Analysis

Table 7 shows the extent of association between the compliance score and the explanatory variables. The first column presents the correlation coefficients between the untransformed dependent variable and untransformed independent variables²². Although the dependent variable in this analysis is normally distributed, in disclosure studies, the value that the

²² With the exception of total assets, which was expressed as the natural logarithm of total assets.

compliance score can take is limited to a minimum of 0.0 and a maximum of 1.0; this restriction violates the assumption that the dependent variable can take on any value (Cooke, 1998). To remedy this violation, Cooke (1998) advised that the dependent variable should be transformed using the log of the odds ratio (LOR). Thus, the second column of the table presents the correlation coefficients between the LOR-transformed dependent variable and untransformed independent variables²³. As the independent variables are not normally distributed (except for directors' shareholding and size), the normal scores of the variables were calculated. This transformation replaces ranks with scores in the normal distribution²⁴. The use of untransformed data, the LOR transformation and normal scores of the variables ensures that the results are not driven by a particular method but, instead, are robust across methods. Column three of Table 7 details the correlation between the transformed dependent variable and the transformed independent variables. The Spearman rank-order correlation was calculated using the untransformed data, while the Pearson product-moment correlation was computed using the transformed data.

Insert Table 7 about here

It is clear from Table 7 that the compliance score is significantly correlated with size, power distance, political representation and enforcement. Thus, the results indicate that legitimacy, consistency, multiplicity and legal coercion may be useful in explaining the extent of compliance with fair value disclosure requirements by Bangladeshi companies. Table 7 also shows that, of these four variables, only size is positively correlated with the level of

²³ The log of the odds ratio (LOR) of the dependent variables was calculated using the formula $Y = \ln\left(\frac{P}{1-P}\right)$; where 'P' represents the compliance score.

²⁴ The normal scores were calculated by dividing the normal probability distribution into the same number of equal parts as the number of observations and then calculating the expected value of each part (Anderson et al., 2014).

compliance. The negative correlation between the compliance score and power distance suggests that compliance declines as the power distance between the CEO/Chairman and the rest of the Board members increases. Similarly, the results indicate that companies with political representation on the Board tend to comply less with the disclosure requirements. Furthermore, it was expected that companies that had been warned by BSEC would exhibit a higher level of compliance. However, contrary to expectations, enforcement is negatively correlated with the level of compliance. Finally, the table shows that the remaining variables are not significant. Thus, economic efficiency, constraint, diffusion and interconnectedness are not associated with the level of compliance with the fair value disclosure requirements of IFRS. To further test the association between the dichotomous categorical variables and the extent of compliance, the non-parametric Mann-Whitney and parametric t-test were conducted. The findings from this analysis are presented in Table 8.

Insert Table 8 about here

Table 8 shows that, on average, companies with a CA on the Board had a higher level of compliance with the disclosure requirements. However, the Mann-Whitney and the independent t-test show that the difference between both the mean and median of companies that had a CA on the Board and those that did not are not statistically significant. The analysis also provides further evidence that companies that had been warned by the BSEC complied significantly less than companies that had not been warned by the BSEC (enforcement). The difference in the median (mean) compliance score of the two groups is significant at the 5.0% (10.0%) level. Finally, a difference in the compliance score is observed between companies that had political representation on the Board and those that did not. However, this difference is not statistically significant using the Mann-Whitney test and is significant only at the 10% level using the t-test.

6.3 Multivariate Analysis

Table 9 presents the results from a multivariate analysis. The theoretical framework employed in this study led to 11 independent variables. As it can be difficult when there are many variables to identify which best describes the relationship, stepwise regression was used to find the best model (Anderson et al., 2014). This approach is in keeping with the analysis of Street and Gray (2002). An analysis of the adjusted R^2 and F statistics of all of the regression models that were estimated shows that all six explain more than 18.0% of the variability in the compliance score; these statistics are significant at the 5.0% level. Thus, there appears to be a significant relationship between the compliance score and the independent variables. Model 1, which is based on untransformed data, explains 18.5% of the variability in the compliance score and four variables are statistically significant at the 5.0% level. These four statistically significant variables are size, power distance, political representation and enforcement.

Insert Table 9 about here

Model 2, which is based on the LOR-transformed compliance score, shows similar results to Model 1. In particular, the adjusted R^2 is of approximately the same magnitude and, except for size, the same variables are significant at the 5% level. In addition, in terms of the mean square error (MSE), the models based on the untransformed compliance score (Model 1) has a better fit than the model based on the LOR-transformed dependent variable (Model 2).

The final column of the table presents the regression results for Model 3, which are based on transformed compliance scores and transformed continuous independent variables; thus, these models are expected to be more reliable than the other models detailed in the table. Model 3 shows that the same four variables are significant at the 5.0% level. Furthermore, it explains 25.1% of the variability in the compliance score; this explanatory power is higher than that for Models 1 and 2. However, Cooke (1998) argued that if the data are transformed, the

adjusted R^2 is not a reliable measure of best fit and the MSE should be used to compare regression models. Therefore, although Model 3 yielded the highest adjusted R^2 , Model 1 is more reliable as it has the lowest MSE.

7. Discussion

7.1 The Content of Institutional Pressures: Constraint and Consistency

Hypothesis 1 predicted that having a CA on the Board may affect the level of compliance with IFRS. However, none of the models found that this variable was significant at the 5.0% level, although Model 3 found that it was significant at the 10.0% level. This result is consistent with the univariate analyses in Tables 7 and 8, which did not identify having a CA on the Board as a significant variable. Thus, at best, there is only very weak evidence to support this hypothesis. This finding is not consistent with prior studies that uncovered a significant association between directors' accounting qualifications and the extent of disclosure (Mangena and Pike, 2005; Hasan et al., 2008), although it is consistent with Ahmed and Nicholls (1994) who reported only a weak association in the Bangladeshi context.

To test the effect of consistency on the level of disclosure, this study used directors' shareholding and the power distance between the CEO/Chairman and the rest of the directors as variables. The study predicted that these two variables would have a negative association with the level of compliance. However, Table 9 shows that none of the regression models reported a significant coefficient for the directors' shareholding variable. This finding is consistent with the results from the univariate analysis. Thus, H_{2a} is rejected. However, there is very strong support for H_{2b} . Consistent with the univariate analysis, all of the regression models estimated in this study identified power distance as a determinant of the level of compliance; indeed, the variable is significant at the 5.0% level. The negative sign on the coefficient indicates that the higher the power distance between the CEO/Chairman and the

rest of the Board, the lower the compliance score. More specifically, the coefficient of -0.11 in Model 1 means that, for every 1.0% increase in power distance, the extent of compliance is likely to decrease by 11.0% when other variables are held constant. Although some prior studies reported a negative association between directors' shareholding and the extent of disclosure (Haniffa and Cooke, 2002; Chau and Gray, 2010), these results suggest that consistency in power distribution amongst Board members is a better predictor of compliance in countries where power distance is deeply rooted in organizational culture. We argue that in prior studies, overemphasis was placed on directors' share ownership without considering the distribution of power amongst the Board members.

7.2 The Constituents of Institutional Pressures: Multiplicity

H₃ suggested that having political representation on the Board, a proxy for multiplicity, would have a negative effect on the level of disclosure. The regression results provide strong support for this finding from the univariate analysis as political representation is significant in all models at the 5.0% level. According to the coefficients in Model 1 having political representation on the Board is likely to reduce disclosure by 8.0% when all other variables are held constant. This finding supports Nurunnabi (2015) who, through the use of interviews, found that political connection is often used in Bangladesh to manipulate the BSEC. According to Oliver (1991), importing powerful constituents is a co-optation tactic that organizations employ to manipulate institutional rules. Furthermore, a weak positive association with directors' accounting qualification and a strong negative association with political representation affirms the view of Stevenson and Radin (2009), who argued that social capital often acts as a stronger factor than human capital.

7.3 Other Statistically Significant Predictive Factors

Total assets was chosen as a proxy for legitimacy. This variable is significant at the 5.0% level in all regression models except for Model 3, where it is significant at the 10.0% level. Furthermore, the univariate analysis in Table 7 identified total assets as a significant variable. This finding is consistent with Skinner (1994) who argued that the legal costs (litigation claims) for non-compliance are usually higher for larger firms than for smaller firms. Furthermore, larger firms tend to disclose more to avoid public criticism and government intervention (Watts and Zimmerman, 1978). Thus, the direction of association is as expected. That is, the larger the size of the organization, the greater the need for legitimacy. However, the finding with regard to enforcement is contrary to expectations. Specifically, all of the regression models highlighted enforcement as a significant explanatory variable at the 5.0% level, but the coefficients are negative, which supports the results of the univariate analyses. This result implies that companies that had been warned by BSEC for non-compliance continued their malpractice and the actions from the regulators were not coercive enough to have a significant effect on their disclosure behaviour. This finding casts serious doubt on the effectiveness of BSEC's enforcement actions.

7.4 Regression Assumptions and Robustness Test

The VIFs of all of the independent variables were below two, indicating that multicollinearity is not a problem in the current analysis²⁵. In addition, to test the assumption that the error term of the regression equation is normally distributed, a normal probability plot of the standardized residuals was examined for each model; in all cases, the residuals were found to be normal. The residuals were further plotted against the predicted values and no particular pattern was observed; this finding suggests that the linearity assumption was not violated. Finally, in order to ensure that the results from the analysis are robust, multiple approaches to estimate the

²⁵ Furthermore, this study used the Pearson product-moment correlation to detect multicollinearity. The highest correlation coefficient of 0.35 relates to the association between the Big Four and directors' shareholding.

relationship between the extent of disclosure and the explanatory variables were employed, as described in Section 5. Furthermore, a robustness test was conducted to ensure that the regression results were not sensitive to different measures of independent variables. In particular, total assets was replaced with total sales, net profit margin was replaced with operating profit margin and an alternative measure of gearing was used. The results are presented in Appendix 1. Although, a control variable (size) is no longer significant in Model 1, all models yielded results that were not materially different from those presented in Table 9. That is, all models identified the same directors' attributes as significant.

8. Conclusion

The objectives of this study are to measure the extent of compliance with the fair value-related disclosure requirements of IFRS and identify the impact of directors' attributes on the extent of compliance. The major findings of the study are that Bangladeshi-listed companies are not in full compliance with the mandatory fair value disclosure requirements of IFRS and, furthermore, that several institutional factors are associated with the extent of compliance. The recently adopted IFRS 13 was identified as the most problematic standard in terms of non-compliance, with only a ceremonial adoption in Bangladesh. A comparison with prior studies that have focused on Bangladesh (for example, Akhtaruddin, 2005; Karim and Riya, 2022) and other developing countries (for example, Abdullah, 2011) reveals that the extent of disclosure specific to fair value is significantly less than aggregate disclosures, including voluntary disclosure (Ali et al., 2004).

Oliver's (1991) framework was used to develop hypotheses in order to investigate whether directors' attributes were related to the extent of compliance. The conclusion reached in regard to the association of explanatory variables with the extent of fair value-related disclosure was supported by both a univariate and multivariate analysis. Specifically, both analyses were broadly in agreement about the determinants of the extent of compliance. The

analyses indicated a significant negative association between the extent of compliance and power distance and political representation. In addition, enforcement actions from BSEC had a negative effect, while size was the only factor that had a positive association. Thus, the results indicate that the extent of compliance was positively and significantly associated with legitimacy and significantly negatively associated with consistency, multiplicity and coercion. Overall, therefore, there is strong support for Oliver's (1991) claim that strategic responses to institutional rules can be explained by the institutional factors that underpin those rules. The variables identified in the study support four of the five institutional factors hypothesized by Oliver (1991), including causes, content, constituents of institutional rules and control over institutional rules. The study did not find evidence that the context of institutional rules was an important explanatory factor of the strategic response to those rules.

The theoretical underpinning of this study led to the identification of two statistically significant variables that have not been previously tested in studies of mandatory disclosure. These two variables are power distance and political representation. The power distance variable was grounded on consistency as an institutional factor, but supported by the cultural theory of Hofstede et al. (2010). Political influence has been previously documented in the literature as a factor that affects IFRS implementation, especially in developing countries (Nurunnabi, 2015). However, this study provides statistical evidence that political influence may affect the extent of compliance with regulatory requirements. Finally, the statistical analyses suggested that a lack of legal coercion was also hindering the implementation of IFRS in Bangladesh. In this regard, Chen and Zhang (2010, p. 665) argued that, in China, '...adopting IFRS does not necessarily lead to IFRS-type accounting practices'. Furthermore, the findings of this study are corroborated by Ball (2006), who argued that, regardless of IFRS adoption, the incentives for preparers and regulators to comply with IFRS remain local.

Although the study has made a number of contributions to the extant literature, it is subject to some limitations. It should be acknowledged that accounting standards that were out of the scope of IFRS 13, but could arguably be regarded as standards that require fair value-related disclosures, were excluded from the study. This limitation arises as this study represents the first study to focus on the extent of compliance with fair value-related disclosure only and there is limited guidance in the literature on the standards and disclosure items that should be included in the disclosure index. Future studies could include more fair value-related disclosure items to the index. A second limitation of this study relates to the independent variables. These variables were collected or constructed based on information obtained from a wide range of sources, including annual reports, company websites and the websites of regulators. Thus, the accuracy of the statistical tests conducted in this study depends largely on the accuracy of the data collected from these sources. Third, hypotheses that were developed and tested in this study were guided by the chosen theoretical framework. Although the theory outlines the potential predictive factors of strategic responses to institutional pressures for compliance, there is limited guidance on the proxies that should, or could, be used to represent these factors. Thus, the proxies used in this study may not be considered a true representation of the predictive factors. Future research could usefully check the extent of compliance with new variables derived from Oliver's (1991) framework in order to test the ability of the theory to explain corporate mandatory disclosure practice.

Disclosures

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Table 1.

Oliver's (1991) Model of Strategic Response to Institutional Processes.

Institutional Antecedents and Predicted Strategic Responses

Predictive Factor	Strategic Responses				
	Acquiesce	Compromise	Avoid	Defy	Manipulate
<i>Cause:</i>					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low
<i>Constituents:</i>					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
<i>Content:</i>					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
<i>Control:</i>					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
<i>Context:</i>					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

Notes: This table presents strategic responses and their predictive factors as hypothesised by Oliver (1991). The table is reproduced from Oliver (1991, p. 160).

Table 2

Independent Variables Used in the Study.

Predictive Factor of Strategic Response (Oliver, 1991)	Variables Selected	Predicted Sign	Measurement
Content of Institutional Pressures			
Constraint	CA on the Board	?	1 if there is a CA on the Board, 0 otherwise
Consistency	Directors' shareholding /Power distance	-	Percentage of shares owned by Board/Percentage of shares owned by CEO and chairman÷ Percentage of shares owned by Board
Constituents of Institutional Pressures			
Multiplicity	Political representation	-	1 if there is a politically connected director on the Board, 0 otherwise
Dependence	Gearing	?	Debt ÷ Equity
Causes of Institutional Pressure			
Legitimacy	Size	+	Natural Log of total assets
Economic Efficiency	Profitability	+	Net profit margin
Control over Institutions			
Coercion	Enforcement	+	1 if the company was warned by BSEC, 0 otherwise
Diffusion	Big Four	+	1 if the auditor is one of the Big Four, 0 otherwise
Context of Institutional Pressures			
Uncertainty	Liquidity	?	Current assets excluding inventory ÷ Current liabilities
Interconnectedness	Multinationality	+	Percentage of sales accounted for by exports

Notes: This table shows the independent variables that were derived from Oliver's (1991) predictive factors and the expected sign of their association with the dependent variable. The final column of the table details how the variables were measured. The first three variables represent research hypotheses while the remaining variables are control variables.

Source: Tables created by the authors

Table 3

Number of Items Chosen from each Accounting Standard.

Standard	No of Items
IAS 16: Property, Plant and Equipment	7
IAS 38: Intangible Assets	11
IAS 40: Investment Property	17
IAS 41: Agriculture	16
IFRS 7: Financial Instruments – Disclosure	65
IFRS 12: Disclosure of Interests in other Entities	3
IFRS 13: Fair Value Measurement	25
Total	144

Notes: This table shows the number of items included in the disclosure index from seven accounting standards.

Source: Tables created by the authors

Table 4
Sample and Sample Distribution.

Panel A: Sample	
No. of listed companies	263
Financial Companies	(108)
Total non-financial companies	155
Annual reports not available	(8)
Annual reports with missing pages/no notes	(23)
Total No. of Annual Reports Analysed	124
Sample without any fair value items	(52)
Final Sample	72
Panel B: Classification of Final Sample by Industry	
Cement	3
Ceramic	1
Engineering	13
Food and Allied	5
Fuel and Power	6
IT Sector	4
Jute	1
Miscellaneous	2
Paper and Printing	1
Pharmaceuticals and Chemicals	15
Services and Real Estate	1
Tannery Industries	3
Textile	16
Travel and Leisure	1
Total	72

Notes: Panel A of the table provides details of the total sample, while Panel B shows the distribution of the sampled companies across the 14 industrial sectors identified by the DSE.

Source: Tables created by the authors

Table 5
Descriptive Statistics for Compliance Scores.

Panel A: Overall Compliance

	No. of Firms Using FV	Mean	Median	Standard Deviation	Maximum	Minimum	Skewness (kurtosis)	Normality
Overall	72	39%	40%	12.9%	62.5%	8.3%	-0.200 (-0.800)	0.598**

Panel B: Compliance with Individual Standards

IAS 16	57	71.2%	80%	25.9%	100%	20%		
IAS 38	0							
IAS 40	1	75%						
IAS 41	0							
IFRS 7	36	39.5%	40.5%	11.8%	58.3%	10%		
IFRS 12	1	100%						
IFRS 13	72	19.4%	20%	13.8%	50%	0		

Notes: This table shows the extent of compliance with each standard and descriptive statistics of the compliance with IFRS. In particular, Panel A of the table shows descriptive statistics for the overall compliance score, while Panel B shows descriptive statistics for individual standards. Skewness represents the Kendall-Stuart measure of skewness, whilst Kurtosis shows the result from applying the Kendall-Stuart test of kurtosis to the data. The result of the kurtosis test is shown in parentheses. The column headed 'Normality' shows the test statistics of the Anderson-Darling test of normality. **p < 0.05.

Source: Tables created by the authors

Table 6
Descriptive Statistics for the Independent Variables.

Panel A: Descriptive Statistics of the Continuous Variables

	No. of Firms Using FV	Mean	Median	Standard Deviation	Maximum	Minimum	Skewness (Kurtosis)	Normality
Total assets In BDT million ¹	72	7994	3915	13355	96424	171	4.520 (26.960)	9.361
Natural Log of Total assets							-0.030 (-0.100)	0.320**
Profitability	72	11.8%	7.8%	21.3%	157.5% ²	-24.1%	4.800 (30.930)	8.613
Directors' shareholding	72	40.6%	40.8%	22.3%	95.3%	0	0.180 (-0.310)	0.213**
Power distance	72	78.1%	89.7%	29.0%	100%	0	-1.430 (1.130)	5.986
Gearing	72	45.4%	35.4%	61.8%	284.2%	-157.6% ³	1.380 (5.430)	4.709
Liquidity	72	1.543	0.927	2.414	19.093	0.114%	5.760 (40.120)	10.247
Multinationality	72	24.7%	0.3%	40.7%	100%	0	1.250 (-0.340)	13.951

Panel B: Frequency and Percentage of the Categorical Variables

		No. of firms (%)		No. of firms (%)	Total (%)
CA on the Board	Yes	23 (31.9%)	No	49 (68.1%)	72 (100%)
Political representation	Yes	20 (27.8%)	No	52 (72.2%)	72 (100%)
Enforcement	Yes	12 (16.7%)	No	60 (83.3%)	72 (100%)
Big Four	Yes	14 (19.4%)	No	58 (80.6%)	72 (100%)

Notes: Panel A of the table shows descriptive statistics for the continuous independent variables, while Panel B presents descriptive statistics for the categorical independent variables. The variables are defined in Table 2.

**p < 0.05.

1. BDT 110 = \$1 as at 21st October 2023.

2. This company reported a significant amount of other income that superseded the reported revenue.

3. This company was in negative equity as its accumulated losses exceeded other components of the equity.

Source: Tables created by the authors

Table 7

Association between the Dependent and Independent Variables.

	Untransformed (Spearman's)	Log of Odd Ratio (Pearson)	Normal Score (Pearson)
Total assets	0.294**	0.255*	0.282**
Profitability	0.019	0.023	0.043
CA on the Board	0.149	0.117	0.146
Directors' shareholding	0.107	0.059	0.088
Power distance	-0.229*	-0.200*	-0.243**
Political representation	-0.184	-0.268**	-0.228*
Gearing	0.172	0.189	0.203*
Enforcement	-0.238**	-0.212*	-0.220*
Big Four	0.073	0.028	0.041
Liquidity	-0.131	-0.201*	-0.168
Multinationality	0.015	0.024	0.013

Notes: This table presents the correlation coefficients between the compliance score and independent variables, using the parametric Pearson product-moment correlation and the non-parametric Spearman rank-order correlation. The variables are defined in Table 2. *p < 0.10, **p < 0.05.

Source: Tables created by the authors

Table 8

Differences in Compliance Score between Companies with and without Categorical Variables.

		No. of Firms	Mean	Median	Standard Deviation	M-W¹ (p value)	T² (p value)
CA on the Board	Yes	23	41.6%	38.2%	12.5%	1684.5 (0.211)	-1.12 (0.267)
	No	49	37.8%	43.7%	13.7%		
Enforcement	Yes	12	32.7%	28.3%	13.3%	2322.5** (0.046)	-1.81* (0.090)
	No	60	40.3%	41.4%	12.6%		
Big Four	Yes	14	40.4%	44.1%	14.3%	2074.0 (0.545)	0.41 (0.688)
	No	58	38.7%	38.5%	12.7%		
Political representation	Yes	20	34.2%	33.3%	15.2%	606.5 (0.122)	-1.80* (0.083)
	No	52	40.9%	42.6%	11.6%		

Notes: This table presents the findings from a Mann-Whitney (M-W) and independent t-test. The variables are defined in Table 2. *p < 0.10, **p < 0.05.

1. The first line of this column shows the W statistic for the Mann-Whitney test with the associated p-value given in parentheses below.

2. The first line of this column shows the t-statistic from the t-test, while the associated p-value is shown in parentheses in line two.

Source: Tables created by the authors

Table 9:
Multivariate analysis.

	Untransformed			Transformed (Log of Odds Ratio)			Transformed (Normal Score)		
	Model 1			Model 2			Model 3		
	Coef	T	P	Coef	T	P	Coef	T	P
Constant	-0.136	-0.47	0.637	-2.53	-1.90*	0.063	0.219	1.43	0.157
CA on the Board	0.054	1.66	0.101	0.244	1.62	0.110	0.460	1.96*	0.055
Directors' shareholding	0.016	0.21	0.838	-0.003	-0.01	0.994	0.124	1.01	0.315
Power distance	-0.115	-2.18**	0.033	-0.528	-2.16**	0.035	-0.423	-3.19***	0.002
Political Representation	-0.085	-2.60**	0.012	-0.442	-2.90***	0.005	-0.609	-2.56**	0.013
Control Variables									
Gearing	0.026	1.07	0.288	0.114	1.00	0.319	0.260	1.95*	0.056
Total assets	0.029	2.26**	0.028	0.117	1.98*	0.052	0.30	2.55**	0.013
Profitability	0.016	0.22	0.830	0.141	0.41	0.685	0.048	0.41	0.680
Enforcement	-0.087	-2.19**	0.032	-0.410	-2.21**	0.031	-0.712	-2.50**	0.015
Big Four	-0.040	-0.94	0.350	-0.194	-0.98	0.333	-0.491	-1.61	0.112
Liquidity	-0.002	-0.30	0.768	-0.017	-0.52	0.606	0.123	0.91	0.364
Multinationality	-0.014	-0.36	0.723	-0.052	-0.30	0.769	-0.142	-1.04	0.303
R ² (%)	31.10			31.28			36.71		
Adj. R ² (%)	18.47			18.68			25.11		
MSE	0.014			0.296			0.720		
F Statistic (p value)	2.46** (0.013)			2.48** (0.012)			3.16*** (0.002)		

Notes: Model 1 is based on the untransformed data, Models 2 is based on the Log of Odds Ratio transformed dependent variable and Model 3 is based on the Normal score transformed dependent and independent variables. The variables are defined in Table 2. *p < 0.10, **p < 0.05, ***p < 0.01.

Source: Tables created by the authors

Appendix 1

Robustness Test

	Model 1			Model 2			Model 3		
	Coef	T	P	Coef	T	P	Coef	T	P
Constant	0.078	0.30	0.766	-0.148	-0.52	0.606	-0.111	-0.38	0.703
CA on the Board	0.055	1.67*	0.100	0.054	1.65*	0.100	0.053	1.63	0.108
Directors' shareholding	0.004	0.05	0.957	0.015	0.190	0.848	0.017	0.22	0.826
Power distance	-0.107	-2.00**	0.050	-0.116	-2.20**	0.031	-0.105	-2.02**	0.048
Political Representation	-0.082	-2.46**	0.017	-0.084	-2.57**	0.013	-0.093	-2.83***	0.006
Control Variables									
Gearing	0.022	0.91	0.366	0.026	1.07	0.289	-0.0216	-0.48	0.635
Size	0.019	1.64	0.107	0.029	2.30**	0.025	0.028	2.21**	0.031
Profitability	0.056	0.78	0.438	0.002	0.03	0.976	0.006	0.08	0.936
Enforcement	-0.081	-1.98**	0.050	-0.086	-2.16**	0.035	-0.088	-2.15**	0.036
Big Four	-0.035	-0.80	0.425	-0.039	-0.93	0.358	-0.039	-0.91	0.368
Liquidity	-0.003	-0.51	0.610	-0.002	-0.25	0.800	-0.004	-0.67	0.508
Multinationality	-0.019	-0.49	0.623	-0.014	-0.36	0.721	-0.015	-0.39	0.697
R ² (%)	28.45			31.05			30.05		
Adj. R ² (%)	15.33			18.40			17.22		
MSE	0.030			0.033			0.032		
F Statistic (p value)	2.17** (0.028)			2.46** (0.013)			2.34** (0.018)		

Notes: Natural logarithm of sales was used as a proxy for size in Model 1, Model 2 is based on operating profit margin and a different measure of gearing ($\frac{Debt}{Debt+Equity}$) was used in Model 3. The remaining variables are defined in Table 2. VIF of all independent variables are below two. *p < 0.10, **p < 0.05, ***p < 0.01.

Source: Tables created by the Authors