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DOES BOARD COMPOSITION AND OWNERSHIP STRUCTURE MATTER IN RISK DISCLOSURE LEVEL: EVIDENCE OF TUNISIAN FIRMS

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ABSTRACT

The main objective of this study is to examine the diversity of boards of directors and the ownership structure of Tunisian companies. The study uses 2019 company-level data of Tunisian companies listed in the stock market risk disclosure levels are captured by manual content analysis in annual reports. This article considers the risk disclosure level based on a sample of 53 companies listed on the Tunisian stock exchange. Regression analysis shows that the corporate governance mechanisms in our study are significantly associated with the level of risk disclosure. The results show that usually board independence, institutional ownership, foreign ownership positively affect the level of risk disclosure. However, the size of the board of directors is negatively associated with the level of risk information disclosed in annual reports. This study contributes to the existing literature on accounting for corporate disclosure strategy. This study provides new evidence on how board composition and ownership structure affect the level of risk disclosure.

ABSTRAK

Tujuan utama dari studi ini adalah untuk menguji keberagaman dewan direksi dan struktur kepemilikan perusahaan-perusahaan Tunisia. Studi ini menggunakan data tingkat perusahaan tahun 2019 dari perusahaan-perusahaan Tunisia yang terdaftar di pasar saham. Tingkat pengungkapan risiko ditangkap oleh analisis konten manual dalam laporan tahunan. Artikel ini memperhitungkan tingkat pengungkapan risiko berdasarkan sampel 53 perusahaan yang terdaftar di bursa saham Tunisia. Analisis regresi menunjukkan bahwa mekanisme tata kelola perusahaan dalam studi kami secara signifikan terkait dengan tingkat pengungkapan risiko. Hasilnya menunjukkan bahwa biasanya independensi dewan, kepemilikan institusional, kepemilikan asing secara positif memengaruhi tingkat pengungkapan risiko. Namun, ukuran dewan direksi secara negatif terkait dengan tingkat informasi risiko yang diungkapkan dalam laporan tahunan. Studi ini berkontribusi pada literatur yang ada tentang akuntansi untuk strategi pengungkapan perusahaan. Studi ini memberikan bukti baru tentang bagaimana komposisi dewan dan struktur kepemilikan memengaruhi tingkat pengungkapan risiko.

INTRODUCTION

The definition of the concepts of "risk" and "risk management" has received considerable attention from researchers in accounting and finance over the past decades. Indeed, there are several studies related to the measurement of risk information disclosure. Disclosure of information risks will not provide satisfactory disclosure of a company's financial position as there are several strategic and operational risks that can affect the subsequent financial performance of the company (Beretta & Bozzolan, 2004; Haji & Ghazali, 2012; Bao & Datta, 2014; De Luca et al., 2020; Veltri et al., 2020). Usually, the narrative section of financial information in the annual report published by companies is seen as an important way to describe, clarify and measure quantitative assessment in financial statements, it can also be used as an opportunity to '' introduce many useful visions on the generation engine value (Robb & Zarzeski, 2001; Bozec & Dia, 2015; Ibrahim et al., 2019; Grassa et al., 2020).

The measurement of the level of risk disclosure has become a necessary subject of the communication policy of companies and management as it can show more level of transparency and improve the confidential view of investor confidence in value and activity. company (Solomon et al., 2000; Linsley & Lawrence, 2007; Campbell et al. 2014; AlHares et al., 2020; Mukhibad et al., 2020; Guthrie et al., 2020). In addition, more attention has been paid to risk disclosure and it should be seen as a cornerstone for businesses and investors. For companies, risk disclosure helps manage change and lowers the cost of capital, for investors, risk information helps determine the company's risk profile, assess market value and predict precisely the price of securities (Beretta & Bozzolan, 2004; Helliar & Dunne, 2004; Abraham & Cox, 2007; Dobler et al. 2016; Dumay & Hossain, 2019; Elamer, et al., 2019; Leopizzi et al., 2020). This article aims to identify and measure the contribution of the ownership structure and the composition of the board of directors in improving the level of risk disclosure of Tunisian listed companies. In order to answer this fundamental question, we have tried to take into account several determinants of the level of disclosure of risks related to corporate governance of companies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Business risk disclosure has been defined by Hassan (2009), Hassan (2014), Heinle & Smith (2017) as financial statements incorporating general, specific and potential circumstances that may cause fluctuations, declines or otherwise in the value of assets, and/or corporate liabilities. Similar research Linsley & Shrives (2006); Elshandidy & Shrives (2016); Khlif & Hussainey (2016), Bravo (2018); Ibrahim et al. (2020); Grassa et al. (2020) shows that disclosure was considered as a risk disclosure, when users of the information have received any opportunity or prospect, or any danger, danger, threat or exposure, that such information has already had an impact on the business or will have an impact on the business to the future. Schrand & Elliot (1998) and Dove et al. (2019) reported that the process of defining the term risk disclosure is complicated and difficult because there are many types of risk effect on the degree of management control. Some risks are financial and must be managed by financial instruments, others are operational. Abraham & Cox (2007) classified risk reporting into three types.

Agency theory seeks to provide explanations for transparency issues observed in financial environments whenever there is an agency relationship. The separation between ownership and control generates conflicts of interest within the company between managers and shareholders. According to Fama and Jensen (1983), the ownership structure determines the extent of these conflicts. The demand for financial information from capital holders is expected to be higher when ownership is more dispersed. Conversely, when ownership is concentrated, the risks of wealth transfer are limited due to the less managerial nature of the company and, in general, the smaller number of shareholders. In cases of highly dispersed ownership, managers are encouraged to enhance transparency by disclosing more financial information to reduce conflicts of interest between shareholders and managers.

Minority investors have faced numerous challenges in obtaining information about companies. As a result, they often turn to online resources to seek information and ensure that the company's interests align with their ownership (Sikka, & Stittle, 2019). Several empirical studies have demonstrated a positive association between ownership structure and the quality and/or extent of information disclosure (Fathi, 2013). These studies reveal that companies with more dispersed ownership structures tend to disclose more voluntary information to meet the needs of their minority shareholders.

Firstly, business risk reporting that Dunne et al. (2004), Monjed & Ibrahim (2020), Veltri et al. (2020) have shown that the narrative section in annual reports is very important for stakeholders because it helps them to assess the role of financial instruments in the overall risk management strategy of a company. Narrative and digital information on financial risks requires a link with interest rate risk, currency risk, liquidity risk, financial instruments, debtor and creditors hedging in foreign currencies and net investments in companies foreign (Sharif & Lai, 2015; Abraham & Cox, 2007; Cox et al., 2013; Abraham & Shrives, 2014; Elamer et al., 2019; Dumay & Hossain, 2019; AlHares et al., 2020). Second, internal control risk reporting that asses the effectiveness of internal financial control. The Internal Control Risk Report was reviewed by the Turnbull Report in 1999, and the main objective of the Turnbull Report was to make control recommendations more obvious (Roberts et al., 2004; Helliar & Dunne, 2004). On the other hand, Boritz (1990) classified risk and uncertainty as follows: uncertainty regarding the nature and role of financial statements, uncertainty regarding the nature of business transactions in financial statements, and uncertainty regarding the motivation for the direction and limitation of the measures of the financial statements.

Long-term institutional investors who hold highly diversified portfolios are interested in financial communication strategies and consistently seek to enhance corporate transparency to ensure their interests align with the company's. Moreover, Chen et al., (2013) indicate that institutional investors provide strong protection for minority shareholders' interests in civil law countries, where investor rights are not well-protected. The explanation of the relationship between the quality of information disclosure and the presence of foreign investors is based on the arguments put forward by agency theory and signaling theory. Indeed, it is more challenging for foreign investors in a country, compared to domestic ones, to gather the financial information disclosed by a company. Similar to minority shareholders, they seek to strengthen their oversight of the company, which leads to higher agency costs. Consequently, managers tend to disclose more financial information to anticipate this agency's problem and reduce its costs. Donnelly, & Mulcahy, (2008), based on a sample of Irish companies for the year 2002, concluded that there is a positive and significant relationship between the percentage of board independence and the extent of voluntary information disclosure in the annual reports of the companies studied.

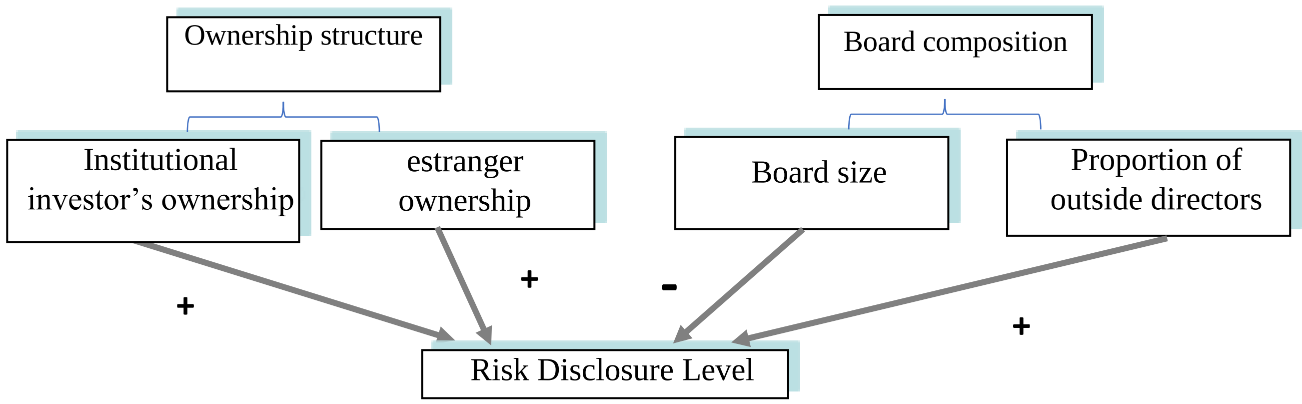

Figure 1. Framework

H_1: there is a positive relationship between institutional investor ownership and the level of risk disclosure.
H_2: there is a positive relationship between foreign ownership and the level of risk disclosure.
H_3: there is no association between the size of the board and the level of risk disclosure.
H_4: there is a positive association between the proportion of outside directors and the level of risk disclosure.

RESEARCH METHOD

The sample used in this study contains the annual reports of 87 companies listed on the Tunisian stock exchange for the year 2019. The choice of companies was based on the availability of data. Like the previous studies, we exclude financial and insurance companies because they are subject to specific information obligations and our final sample contains 53 companies for the year 2019. Refer to several previous research, we limit the period to one year so that the company discloses the same. information from year to year. We ran our empirical model using the static panel data technique which was estimated using least squares. Level of risk disclosure: the risk disclosure index was developed to measure the amount of risk information that was disclosed by the sample companies. The starting point for building this indicator was to develop a checklist drawn from four components of company strategic risk, operational risk, financial risk and damage risk. Then, each component was broken down into several variables related to what each company is supposed to disclose about risk information. As a result, a checklist of twenty-five items related to risk disclosure was obtained. To avoid subjectivity, we consider all the items disclosed in the checklist to be of equal importance, despite the fact that the information content can vary greatly from item to item. Next, we assign a value of one when a particular element is detected and zero otherwise. After a checklist of items was created, a scoring sheet was developed to assess the level of risk disclosure, which is the degree given to each element of risk disclosure in corporate annual reports, and a global measure of disclosure is determined by taking the total indicator score for each company according to the scale shown in Annex 1 (Singh et al., 2020; Widjajanto et al., 2020; Tirado-Beltrán et al., 2020). Level of Risk disclosure (RISKD) for each company is the unweighted sum of the scores of all the items of the index divided by the maximum possible score (Table 1).

$$\text{RISKD it} = \alpha 0 + \alpha 1\text{INST it} + \alpha 2\text{ESTR it} + \alpha 3\text{BSIZEit} + \alpha 4\ \text{BIND it} + \text{eit} \qquad (1)$$

Table 1. Definition and measurement of variables

Label	Definition	Measurement	Predict effect
RISKD	Level of Risk disclosure	$\sum_{j=1}^{25} \frac{\mathbf{scoreRD_{jt}}}{\mathbf{score\ max_j}}$	Dependent variable
INST	Institutional ownership	Percentage of equity ownership by institutions.	+
ESTR	Estranger ownership	Percentage of equity ownership by estranger.	+
BSIZE	Size of the board	The total number of the members on the board.	-
BIND	Board indepedent	[number of independent member/ total number of directors on the board] ×100 %.	+

RESULT AND DISCUSSIONS

The descriptive statistics for the dependent and independent variables are reported in Panel A of Table 2. This table reports the summary statistics for the sample firms. Panel A reports the frequency of dependent an independent variables RISKD measured by the total of items for this company/maximum possible of items risk disclosure disclosed by this company, INST equal to the Percentage of equity ownership by institutions, ESTR equals the percentage of equity ownership by estranger, BSIZE measured by the total number of the members on the board, BIND equal to the percentage of independent member on the board. Table 2 indicates that the mean level of risk disclosure in our sample companies is 0.60 with a minimum of 0,32 and a maximum of 0.8. The value taken by institutional ownership (INST) varied between a min of 0,195 and a maximum value of .85 with a mean of 0,643, which can reflect the high level of institutional ownership participation. On average, 11% of the ownership is detained by estranged investors. The board comprises 8 members on average, and 45% of members are outside directors. Panel B of Table 2 presents the correlation matrix of the dependent and independent variables, from which risk disclosure level is negatively correlated with board size, implying that information asymmetry is greater for firms with larger board sizes. A positive correlation is taken between the dependent variable and ISNT, ESTR, and BIND, implying that companies with a high level of institutional ownership are motivated to disclose more information about risk than others with a low level of institutional ownership. It was observed that the highest correlation between independent variables was -0,56 between BSIZE and BIND, reflecting the information asymmetry. In contrast, there is a high correlation between institutional and estranged ownership. The table shows that the correlations among the independent variables are relatively low; indeed, Bryman and Cramer (1997) suggest that a simple correlation between independent variables should not be considered harmful until it exceeds 0.80 or 0.90. This confirms that collinearity is not a problem for this model.

In the remaining section, we will conduct a multivariate analysis, taking into the simultaneous effect of all variables. The results show a significant explanatory power of the model (R2 = 0,482); we found that the explanatory variables explain 48,19% of the variation in the dependent variable; Fisher statistics also proves this significance with a value of F= 12,11 at 0,01 level of significance. Eventually, study findings show there is a significant relationship between the level of risk disclosure and institutional ownership; the result corroborates that expected and consistent with the theoretical statements, although the positive effect of institutional ownership on the risk disclosure level (T= 0,0334 and P = 0,042). According to the assumption that stimulates a positive association between the estranger participation in the capital of firms and their level of risk disclosure, we find a positive sign but no significant effect (T= 1,98 and P= 0,035).

Table 2. Summary Statistics For The Financial Disclosure Level

Variable	Mean	Minimum	Median	Maximum
RISKD	0,60	0,32	0,65	0,8
INST	0,6425	0,195	0,38	0,85
ESTR	0, 1133	0	0,8	0,63
BSIZE	8,25	2,5	5	12
BIND	0,45	0,22	0	0,8

Panel B: Correlation matrix

	RISKD	INST	ESTR	BSIZE	BIND
RISKD	1,00				
INST	0,48	1,00			
ESTR	0,14	0,44	1,00		
BSIZE	-0,24	0,18	0,15	1,00	
BIND	0,35	0,22	-0,08	-0,56	1,00

Table 3. Regression results

variables	Predict sign	Coef.	Std. Err.	t	P>t
INST	+	0,033	0,012	2,04	0,042**
ESTR	+	0,019	0,009	1,98	0,035**
BSIZE	-	-0,210	0,083	-3,38	0,082***
BIND	+	0,450	0,156	2,19	0,071***
R2	0,482				
Adjusted R2	0,463				
F(4,48)	12,11				
Prob > F	0,000				

This analysis shows that there is a statistically significant coefficient concerning the variable BSIZE, the findings confirm the expected hypothesis and the results of previous studies, show that the board size has a negative impact on the firm risk disclosure level (T= 3,38) in 5% level of significance P= 0,082. As observed in several research, the result show that there is a negative association between board size and the securing of investors' interests that can improve the level of risk disclosure. In fact, the coefficient associated to the variable board size shows a significant effect on the level of risk disclosure of companies in our sample (T = -3,38 and P = 0,082). As could be expected, the results show that the coefficient related to the presence of independent directors in the board support the hypothesis expected. Indeed, a statistics T= .4498 with a level of significance P= 0,071 reported to support the results of previous studies that have proven that a high proportion of independent directors on the board improve the quality/ extent of financial reporting (Jaggi et al., 2020).

The findings of this study demonstrate significant relationships between various corporate governance factors and the level of risk disclosure among Tunisian listed companies. The results align with key theoretical frameworks in corporate governance, specifically agency theory, stakeholder theory, and resource dependency theory, offering deeper insights into the mechanisms influencing risk disclosure. The positive association between institutional ownership (INST) and risk disclosure aligns with agency theory, which posits that institutional investors serve as effective monitors of management behavior due to their access to resources and expertise. This is supported by recent studies (Minutiello & Tettamanzi, 2022), which highlight that institutional investors demand greater transparency to reduce agency costs and information asymmetry. The significance of this variable suggests that institutional ownership incentivizes firms to provide detailed risk disclosures, improving investor confidence and aligning management goals with shareholder interests.

Foreign ownership (ESTR) also exhibited a positive, though marginally significant, impact on risk disclosure. This finding can be contextualized using stakeholder theory, where foreign investors represent an external stakeholder group that prioritizes transparency to mitigate investment risks. Recent literature (Abdi & Omri, 2020) has documented that foreign investors often advocate for international reporting standards, such as IFRS, to improve comparability and risk assessment. This advocacy may explain the slight increase in risk disclosures among firms with significant foreign ownership. The study revealed a negative relationship between board size (BSIZE) and risk disclosure, corroborating previous findings and resource dependency theory, which emphasizes the efficiency of smaller, more cohesive boards. Larger boards can suffer from coordination issues and diluted accountability, leading to less effective oversight and fewer comprehensive disclosures. This result supports studies like Elshandidy & Shrives (2016), which argue that smaller boards are more agile and transparent in governance, particularly in emerging markets.

The positive association between board independence (BIND) and risk disclosure further supports resource dependency theory, as independent directors contribute external expertise and objectivity, enhancing the quality of oversight and strategic decision-making. This is consistent with research by Jaggi et al. (2020), who found that independent directors improve the breadth and reliability of disclosures. This aligns with regulatory initiatives like the Turnbull Report, which emphasizes the role of independent directors in fostering corporate transparency. The overall explanatory power of the model ($R^2 = 0.4819$) indicates that the governance variables examined explain nearly half of the variation in risk disclosure. This underscores the significant role of ownership and board composition in shaping disclosure practices. However, the remaining unexplained variance suggests that other factors—such as corporate culture, industry-specific risks, and external pressures—may also influence disclosure levels. This allows future research to integrate additional variables, such as ESG factors or CEO characteristics. The study findings align with global trends observed in risk disclosure literature. For example, research in developed markets (e.g., Hemrit, 2018), shows similar dynamics, but Tunisian companies may face unique challenges such as regulatory gaps and market immaturity. These factors highlight the importance of localized studies in understanding the contextual nuances of risk disclosure practices.

CONCLUSION

This study examines whether firm characteristics improve the quality of firms' overall risk. We examine the quality of risk disclosure along many subtopics by applying the disclosure quality approach provided in several anterior accounting and financial research. A detailed risk disclosure describes how firms should assess their significant operating, Strategic, and financial risks. The results show that the risk disclosure quality is positively associated with institutional ownership, estranger ownership, and board independence; firms' risk disclosure is more extensive and provides more evenly distributed information where firms have a duality of functions and dispersed ownership. Indeed, firms also give more detailed qualitative descriptions of the economic impact of the identified risk on future performance and provide more information on actions taken and the programs planned to face their risks. The paper provides strong evidence that board composition and ownership structure are important in the risk disclosure level of firms listed in the Tunisian stock exchange. This study has found that all independent variables significantly affect financial disclosure risk. The study was motivated by a literature review in several contexts of developed and developing countries. Our findings have several policy implications. Overall, this research implies that investors should have more basic knowledge and accounting information about business and economics when making their decisions. On the other hand, there is a positive relationship between ownership characteristics and risk disclosure, and the result argues for rejecting the null hypothesis. Hence, it is assumed that the risk disclosure level is properly affected by the independent variables used in this study.

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