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Business Information Transparency: Causes and Evaluation Possibilities

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Abstract

The main purpose of the research is to define business information transparency conception and to investigate its evaluation possibilities. Research is based on analytical approach, there were invoked a systematic, logical and comparative analysis of scientific literature. The transparency of the financial and non-financial information is one of the key factors, which governs the stakeholders trust on a company. Various studies show that business companies tend to reveal only positive non-financial information and conceal not so good news. Thus, social report is used as a mean of advertising. Of course such practice is intolerable because it reduces confidence on given information. Both results of scientific research and practice observations announce about the necessity to get deeper knowledge how to assess the transparency of the business information. Revealed business information transparency valuation possibilities could be used creating business information transparency assessment methodology and by separate company assessing its own business information disclosure.

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Keywords: Transparency; Business information; Evaluation.

Introduction

The conception of business information transparency is found in many scientific studies that analyze financial reporting (Armstrong, Guay, & Weber, 2010; Barth & Schipper, 2008; Cherny, 2014), corporate transparency in general (Albu & Wehmeier, 2014; R. M. Bushman, J. D. Piotroski, & A. J. Smith, 2004), stakeholders‘ reliance on business (Bandsuch, Pate, & Thies, 2008; Greenwood & Van Buren Iii, 2010) and effect of stakeholders‘ pressure

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on transparency (Fernandez-Feijoo, Romero, & Ruiz, 2014), voluntary disclosure of information and factors that determine transparency (Behn, DeVries, & Lin, 2010; Broberg, Tagesson, & Collin, 2010), links between disclosure and cost of capital, non-financial performance indicators (Barth, Konchitchki, & Landsman, 2013; Coram, Mock, & Monroe, 2011), connections between information systems and transparency (Granados, Gupta, & Kauffman, 2010; Lee & Joseph, 2013; Nicolaou, 2009). Transparency is also widely considered in corporate social responsibility (CSR) and sustainability investigations (Dagiliene, Leitoniene, & Grencikova, 2014; Dubbink, Graafland, & van Liedekerke, 2008; Fernandez-Feijoo, et al., 2014; Rahman & Post, 2012). Whereas the transparency of the financial and non-financial information is one of the key factors which governs the stakeholders trust on a company there is the necessity to get comprehensive knowledge on transparency evaluation. Even though there is an increase of scientific researches, which analyze organizations' and information transparency in different social sciences, it remains uncertain how transparency is defined, evaluated and implemented in practice (Albu & Wehmeir, 2014). There is no unified business information transparency assessment methodology in the scientific literature. Depending on the considered research problem, authors invoke quite different measurement tools, which will be reviewed in this paper.

The main purpose of the paper is to define business information transparency conception and to investigate its evaluation possibilities.

1. Transparency of business information

Physically, transparency is acknowledged as a materials' characteristic to conduct light. Due to this feature, things are easily observable through the mentioned substance. Whereas, transparency in social sciences is considered as the local authorities', companies', organizations' and individuals' operating characteristic, when activities, plans, funding and other significant information is provided publicly and clearly. Hence, both definitions of transparency emphasize the importance of visibility. In addition, the main aim is openness and communication, not confidence and concealment (Barth & Schipper, 2007). In this way, information disclosure can determine transparency and reliance on an entity (Wehmeier & Raaz, 2012).

Nevertheless, the opinion on transparency differs among various authors. For instance, Williams (2005) defines transparency using three features: relevant, timely and reliable information. Meanwhile Dubbink et al. (2008) exclude three transparency characteristics: effectiveness (positively associated with quality of information), freedom and virtue. Normally, transparency is related with organizations' public communication, ethics and reliance on it. Similarly, transparency is often described as conscientious communication, contrary to partiality, advertisements and manipulation. Despite the variety of analysis aspects, the main attention in financial and social accounting or organizational researches is committed to information revelation, i.e. organization transparency depends on the publicly available information transparency. Therefore, transparency is generally acknowledged as the companies' financial and non-financial information accessibility for external users (Bushman et al., 2004). Hence, the transparency of business subjects' activities depends on the business information, i.e. financial and non-financial information, disclosure in financial and social responsibility statements, annual reports, Internet websites, communication channels, spread of information, etc.

According to Barth and Schipper (2007), transparency of financial reports is a degree, which enables financial reports to disclose the economic aspects of a property subject in a way financial reports' information users would understand. Meanwhile, non-financial information transparency is associated with corporate social responsibility activities. From one point of view, transparency is an essential condition for CSR reports. From another perspective, the CSR reports are implements, which aid in improving the transparency of the companies' activities (Fernandez-Feijoo et al., 2014). In this instance, GRI standards indicate that the quality and transparency of a companies' social reports determines features like balance, comparability, accuracy, timeliness, clarity and reliability.

The majority of authors agree that information accessibility and transparency encourages reliability, reliance on a company and reduces alienation between the organization and stakeholders. Others notice the probable negative transparency outcomes. For example, information users can understand the provided information mistakenly, which may result in unfounded expectations from the company. That is why enterprises must comprehend the importance of information transparency analysis and evaluation. Only taken these factors into consideration, a company can expect benefits from transparency and avoid the negative results due to transparency.

2. Business information transparency evaluation possibilities

A comprehensive measurement tool for corporate transparency has been proposed by Bushman et al. (2004). They measure corporate transparency using three elements: corporate reporting, private information acquisition and communication, and information dissemination. Corporate reporting assessment was performed using such factors as disclosure intensity, financial and governance disclosures, accounting principles, timeliness of disclosures and credibility of disclosures. Private information acquisition and communication was measured evaluating the amount of private information acquisition by financial analysts and institutional investors, and extent of insider trading activities. While information dissemination element reflected penetration of the media channels in the economy (R. Bushman, J. Piotroski, & A. Smith, 2004). The main conclusion made by authors after investigating data from several countries is that the governance transparency factor is primarily related to a country's legal/judicial regime, whereas the financial transparency factor is primarily related to political economy.

Barth and Schipper (2008) specifies that there are several approaches to measure transparency, including market-based, analyst perception-based and accounting-based measures.

Bandsuch et al. (2008) presented a model of corporate governance that was designed to help to increase the level of trust in business. They provided evaluative instrument of transparency in a business organization called Transparency Measurement Tool (see Table 1), which is designed more systematically assess the level of transparency and allows the company to decide how better include it into the different dimensions of corporate governance (Bandsuch, et al., 2008).

As authors suggest the scores will provide a transparency rating of: opaque (10-24); translucent (25-39) or transparent (40-50).

Behn et al. (2010) conducted an exploratory study investigating determinants of transparency in non-profit organizations. They developed a model for measuring which identified factors associated with greater transparency in the non-profit sector. Factors included in the model were:

- The ratio of end-of-year total liabilities to end-of-year total assets
- The ratio of contributions to total revenues
- The ratio of total compensation of officers and directors to total revenues
- Attribute if an organization is classified as Higher Education
- Log of total assets at the end-of-year (Behn, et al., 2010).

Table 1. Transparency Measurement Tool (TMT)

SCORING: 1 (unacceptable) 2 (inadequate) 3 (minimum) 4 (good) 5 (outstanding)	RISK MANAGEMENT	OSHA	STAKEHOLDER VOICE	FINANCIAL DATA	MANAGEMENT STRUCTURE	OWNERSHIP & BOD STRUCTURE	INDUSTRY STANDARDS	ENVIRONMENTAL IMPACT	COMPANY VALUES	HUMAN RIGHTS
Accuracy										
Comprehensiveness										
Relevancy										
Timeliness										
Accessibility										
Clarity										
Responsiveness										
Total Points										

Source: Bandsuch et al. (2008) p. 117

Coram et al. (2011) examined whether enhanced disclosure of non-financial performance indicators influences decision processes of financial analysts performing stock-price valuations. A verbal protocol study that examines the

information-processing behaviors and types of information used by analysts while valuing companies has been used as a tool (Coram, et al., 2011).

Barth et al. (2013) analyzed links between earnings transparency and cost of capital and found significant negative relation between them. For earnings transparency they developed a measure based on the explanatory power of the returns-earnings relation that reflects the extent to which earning and change of them explain returns. For the construction of earnings transparency measure (TRANS) authors used adjusted R^2s from annual cross-sectional regressions based on the relation between earnings and change in earnings deflated by price (Barth et al., 2013).

Lee and Joseph (2013) examined web disclosure practices and their links to organizational transparency. Authors assert that organizations voluntarily disclosing high quality financial and performance information on their public websites are considered as more open, trustworthy and accountable by the general public (Lee & Joseph, 2013). They analyzed non-profit organizations web disclosure using web content analysis. Web disclosure components were divided into two groups: financial disclosure and performance disclosure. Using web content analysis method authors analyzed if non-profit organizations provide the society with annual reports, audited financial statements, etc. in order to evaluate financial disclosure and such elements as mission, performance indicators, success stories/testimonials, etc. for performance disclosure evaluation.

Fernandez-Feijoo et al. (2014) analyzed if the transparency of the sustainability reports is affected by the relationship of companies in different industries with their stakeholders and found that the pressure created by some stakeholder groups improve the quality and transparency of the reports. In the mentioned research dependent variable „Transparency“ was obtained using principal component analysis technique from four variables (dimension reduction was employed): frequency of corporate social responsibility (CSR) reporting, level of application, declaration of the level and assurance of social responsibility.

Albu and Wehmeier (2014) investigated how transparency can be enacted within special situations like a crisis. They used the case of the crisis encountered by the British bank and applied critical discourse analysis in order to represent how transparency was enacted to help to handle such difficult situation.

Conclusions

Literature analysis proved that most of the scientists agree that the companies' transparency is determined by the business information, i.e. financial and non-financial information, accessibility and transparency. Financial information transparency is defined as transparency of financial reports, which indicates a degree that enables financial reports to display the economic aspects of a property subject in a way financial reports' information users would understand. Whereas non-financial information transparency can be defined with the aid of transparency requirements provided in the GRI standards, i.e. balance, comparability, accuracy, timeliness, clarity and reliability. Moreover, it must be denoted that information transparency stimulates the stakeholders' reliance on a company but insufficient information provision can be perceived wrongly and may result in the stakeholders' unjustified expectations from the company.

The performed scientific literature analysis confirmed that there is no unified business information transparency evaluation methodology, various authors invoke quite different techniques such as verbal protocol study, regressions, web content analysis, principal component analysis, critical discourse analysis. In addition, information quality attributes like accuracy, relevancy, clarity, etc. assessment are being used for transparency measurement. To summarize, three approaches can be distinguished for transparency evaluation: market-based, analyst perception-based and accounting-based measures.

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