FACTORS AFFECTING THE LEVEL OF INFORMATION DISCLOSURE IN FINANCIAL STATEMENTS OF AGRICULTURAL COOPERATIVES - A LITERATURE REVIEW

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Abstract: ***Cooperatives operate under a distinct management model, prioritizing social benefits over profit maximization. Transparent financial disclosure plays a crucial role in protecting members' rights, reducing conflicts, and improving access to funding. This study systematically reviews existing research on financial disclosure and its influencing factors, such as firm size, profitability, leverage, and regulatory environment. While previous studies have mainly focused on corporations, cooperatives require a more tailored approach. The research findings will provide a basis for developing policies that enhance accountability and improve financial management and sustainability in cooperatives.***

• Keywords: *information disclosure; cooperative; financial statement disclosure.*

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1. Introduction

Cooperatives function under a distinct organizational and management model that sets them apart from other business entities. Unlike corporations, which primarily focus on profit maximization, cooperatives emphasize both economic and social benefits for their members. Decision-making power, profit distribution, and member rights in cooperatives are not determined by capital contributions, as seen in joint-stock companies, but rather by members' level of participation and service usage. Cooperative members are often directly involved in business operations, and profit-sharing policies are based on service utilization rather than ownership stakes.

Transparency in financial disclosure plays a vital role in cooperative governance, enabling members to understand the financial health of the organization. This transparency helps safeguard members' rights, promotes trust, and enhances their participation in management. In contrast, a lack of financial transparency can lead to internal conflicts between members and cooperative leadership. Examining the level of information disclosure helps identify and address potential sources of conflict, fostering cooperation among stakeholders and ensuring leadership accountability. Furthermore, transparent disclosure increases cooperatives' access to funding from financial institutions, government agencies, and non-governmental organizations.

Research on the level of information disclosure can help identify and mitigate factors that cause conflicts while fostering cooperation among stakeholders and ensuring accountability of the cooperative's leadership to its members. Comprehensive and transparent information disclosure also enhances cooperatives' access to financing from financial institutions or support from the government and non-governmental organizations.

Studying the level of financial statement disclosure for cooperatives enables relevant entities to improve monitoring capabilities, ensuring cooperatives' compliance with financial and accounting regulations. This, in turn, helps the government and related agencies to establish appropriate policies to support cooperative development, such as training programs, technical assistance, and financial aid. Information disclosure in financial statements is also a legal requirement that cooperatives must comply with, as mandated by accounting laws and related regulations. Compliance assessments help cooperatives identify limitations in their accounting and financial management systems,

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improve internal controls, and train accounting staff to meet financial disclosure standards.

Therefore, studying the level of information disclosure in cooperative financial statements is crucial. This article provides an overview of research on information disclosure and factors influencing the level of financial statement disclosure in enterprises, as applied to cooperatives. It identifies research gaps and outlines directions for future research, including the development of relevant research models on this topic.

2. Theoretical basis for information disclosure

Financial information disclosure is defined as the process of publicly providing information on an organization's financial position, business performance, and cash flows through financial statements. Cooperatives must ensure that their financial statements not only accurately reflect their financial status but also deliver information comprehensively, transparently, and promptly.

Gibbins, Richardson, and Waterhouse (1990) defined financial disclosure as any intentionally provided financial (and non-financial) information, whether quantitative or qualitative, mandatory or voluntary, through formal or informal channels. Companies use various mediums for information disclosure, such as annual reports, conferences, and analyst presentations. Corporate annual reports are regarded as an essential formal disclosure channel, though not sufficient in capital markets, as other means like conference calls and interim reports may provide more timely information (Marston and Shrives, 1991).

Information disclosure plays a critical role in an entity's operations by forming the foundation upon which the entity provides essential and detailed information about its business activities, ensuring the information's completeness, accuracy, and timeliness for stakeholders. Disclosure is not only a method for an entity to communicate its status but also serves as a basis for stakeholders to assess and make decisions. The importance of corporate information disclosure arises from its role as a communication medium between management and external investors, as well as other market participants. This disclosure need stems from issues of information asymmetry and conflicts between management and external investors (Healy and Palepu, 2001).

3. Research methodology

To provide an overview of studies on the level of information disclosure in financial statements, this paper employs a systematic review approach, offering a comprehensive understanding of information disclosure and the factors influencing disclosure in financial statements. The paper also seeks to explore the research methods and theories utilized in previous publications that may address gaps for future studies.

3.1. Research process

Various methods were employed to identify and classify relevant articles for this review. The author began by manually searching and filtering studies related to the level of information disclosure and the factors influencing it in financial statements. Through a manual examination of keywords, article titles, and abstracts, the author compiled a list of commonly relevant articles. The primary databases consulted included Scopus, Elsevier Science Direct, and PubMed. Additionally, the authors extended the scope of relevant studies by scanning the reference lists of pertinent articles, a method known as backward and forward reference searching (Nguyen, et al., 2022).

3.2. Evaluation method

Following the search and selection process, relevant articles were compiled and classified into groups according to the factors influencing the level of information disclosure in financial statements. All factors were organized chronologically and grouped based on whether they had a positive, negative, or neutral impact on disclosure levels. This approach helped to identify gaps in previous research and suggested research directions, specifically tailored to the context of cooperatives in Vietnam.

4. Overview of theoretical foundations and factors influencing the level of information disclosure in financial statements

4.1. Factors influencing the level of disclosure in financial statements

Numerous domestic and international authors have systematically synthesized the theoretical basis for disclosure methods and content, as well as the factors influencing the level of information disclosure. Research in this field typically follows two main directions: voluntary disclosure and mandatory disclosure. However, despite extensive studies on disclosure in financial statements, results vary due to differences in the scope and timing of each study. Key studies can be summarized based on the following factors:

Firm size

Large firms often face greater pressure from stakeholders such as shareholders, investors, and regulatory bodies. Ceft AR (1961) analyzed how firm size might affect investment decision-making processes and financial statement disclosure. Firm size can be understood as the organization's dimensions and scope, including the number of employees, annual revenue, assets, and organizational structure.

Bushman and Smith (2001) suggested that larger companies have more resources, infrastructure, and organizational capacity to implement effective disclosure measures. Furthermore, larger companies typically face more rigorous scrutiny from stakeholders and regulatory agencies, which motivates them to provide more comprehensive and transparent financial information. Conversely, Lang and Lundholm (1993) found that smaller companies might actually disclose more information than larger ones. Smaller companies, seeking to attract capital and build trust with investors, may actively engage in disclosure practices to reduce information asymmetry.

Profitability

Cerf (1961) analyzed the annual reports of 527 companies in Asia and found that as profitability increases, the level of information disclosure tends to decrease. This raises questions about the limitations of disclosure among highly profitable companies. In contrast, McNally et al. (1982) identified a positive relationship between profitability and voluntary disclosure levels. Profitability was measured not only by profit but also by profit margin. Healy and Palepu (2001) argued that companies with higher profit margins tend to provide more detailed and transparent financial disclosures to foster trust from investors and shareholders.

Fixed assets

Biddle and Hilary (2006) demonstrated a positive relationship between the scale of fixed assets and the level of information disclosure. Companies with larger fixed asset bases are more likely to disclose detailed and transparent information about their assets to build trust and credibility with stakeholders. Additionally, firms with substantial fixed assets may face closer scrutiny from stakeholders and regulatory bodies, prompting them to provide more comprehensive financial disclosures. However, Leuz and Verrecchia (2000) suggested that companies investing heavily in fixed assets, especially in industries with long asset life cycles, may prioritize confidentiality to protect proprietary information related to technological innovations or production processes. Consequently, such firms might engage in selective disclosure or provide less detailed information on their fixed assets.

Financial leverage

Financial leverage is often used to enhance a company's financial performance by employing debt to generate higher returns. However, high financial leverage can create pressure on companies to maintain or enhance financial performance. Myers and Majluf (1984) proposed that companies with high leverage may face pressure to minimize information disclosure to avoid decreasing share value and losing investor confidence. On the other hand, financial leverage can present opportunities for firms to expand business operations and investments. Effective use of financial leverage may help companies increase capital and debt repayment capacity, thereby improving transparency and the reliability of financial information, which in turn encourages more comprehensive disclosure in financial statements (Smith et al., 2015).

Liquidity

Singhvi (1967) asserted that improved liquidity is often associated with higher levels of information disclosure, highlighting the significance of financial health and risk management in understanding corporate disclosure practices. Conversely, Alonso et al. (2015) argued that weak liquidity may hinder a company's ability to provide complete and accurate information in financial reports, reflecting uncertainty in the financial health of the company, which may raise concerns for investors and other stakeholders. Wallace et al. (1994) also found that liquidity can influence the level of detail and transparency in disclosed information.

Company age

Botosan (1997) noted that newly established companies often disclose less information in financial reports compared to firms with a longer operational history. Lack of experience and limited resources may lead newer companies to underemphasize comprehensive and transparent disclosure. Conversely, other researchers suggest that business longevity may have a negative impact on disclosure levels. Established companies may rely on their reputation and past performance to attract investors, reducing the incentive to report transparently. Additionally, older companies might face challenges in adapting to evolving regulatory requirements or technological advancements, which could hinder their ability to enhance disclosures (Leuz & Verrecchia, 2000).

Audit and control

An independent and professional audit process can foster stakeholder confidence in the accuracy and reliability of financial report disclosures. Rigorous and trustworthy controls ensure that disclosed information accurately reflects the company's financial condition and operations. Francis and Krishnan (1999) indicated that companies often employ external audit services to improve internal control processes and ensure the accuracy and reliability of disclosed information. Dechow, Sloan, and Sweeney (1995) suggested that an effective audit system builds investor trust and promotes transparency and credibility in financial reports.

Accounting expertise

Companies with a professional and highly skilled accounting team tend to disclose more detailed and transparent information in their financial reports. Experienced accountants are usually well-versed in accounting regulations and international standards. Bushman and Smith (2001) noted that skilled accountants are better equipped to accurately prepare and verify financial statements, thereby enhancing the transparency and reliability of disclosed information. Ball and Shivakumar (2005) suggested that highly qualified accounting personnel can identify and prevent errors and fraud in the preparation and disclosure of financial reports. However, companies with highly skilled accountants may also produce more complex financial statements that are less understandable and transparent to non-specialist stakeholders due to technical details and specialized jargon.

Legal environment

The legal environment comprises the regulations, laws, and legal standards that companies must adhere to when preparing and disclosing financial statements. The stringency and clarity of the legal environment can significantly impact a company's decisions regarding information disclosure. Research by Leuz and Verrecchia (2000) indicated that a strict and clear legal framework often encourages companies to provide detailed and transparent financial disclosures to comply with legal requirements. Leuz, Nanda, and Wysocki (2003) also noted that the legal environment influences corporate decisions about publicizing information in financial reports. Companies may face pressure from legal regulations regarding information disclosure and may seek to comply with these requirements to avoid penalties or legal liabilities.

4.2. Conclusion and research directions

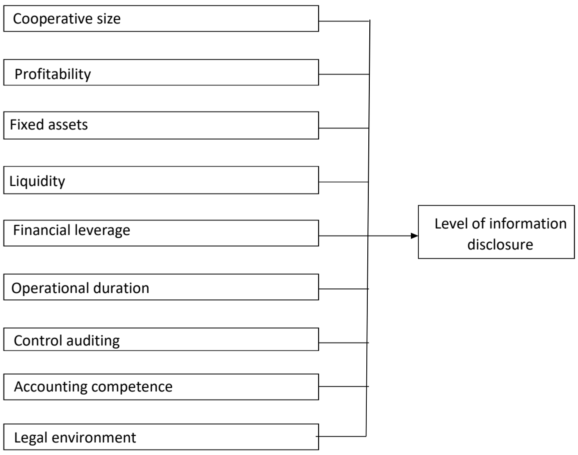
Through this overview, it is evident that the topic of information disclosure has garnered considerable interest from researchers. Globally, studies on information disclosure and the factors influencing its levels have been conducted for many years across various countries. In Vietnam, researchers have only recently begun to explore this issue, primarily focusing on information disclosure in the financial statements of publicly listed companies. Thus, it is apparent that previous studies have predominantly concentrated on businesses with the primary objective of profit maximization and growth, where profits are typically distributed among a specific group (such as shareholders and company founders).

In contrast, cooperatives represent a new area of research, characterized by the principles of a collective economy aimed at serving the common interests of the farming community and ensuring the sustainable development of local agriculture. This includes meeting social objectives, such as providing support services to member farmers, enhancing negotiating power regarding prices and working conditions, as well as protecting the environment and natural resources.

Future research should explore the unique aspects of information disclosure within cooperatives, considering their distinct operational goals and stakeholder dynamics. Understanding the factors that influence financial reporting in cooperatives can provide valuable insights for improving transparency, accountability, and ultimately, the effectiveness of these organizations in serving their communities.

Proposed research direction

First research direction: Investigating the factors affecting the level of information disclosure in the financial statements of cooperatives (HTX). In this model, the author intends to select 9 key factors, including:



Second research direction: Building on a review of previous studies combined with qualitative research methods. This approach will expand the influencing factors to include both previously published factors and new variables based on the unique characteristics of cooperatives, such as management structure, ownership rights, operational scale, and the qualifications of managers.

Furthermore, cooperatives can be classified into various types based on their operational fields, including agriculture, industry and construction, finance, banking and insurance, and commerce and services. Each type of cooperative has its own specific characteristics. This allows for a wealth of in-depth research directions that can either encompass all types or focus on specific fields of cooperatives combined with both existing and unique factors.

Conclusion

The comprehensive review of factors affecting the level of information disclosure in the financial statements of cooperatives has illuminated the core elements that determine the extent of financial transparency. This paper has identified research gaps, highlighting the need for more empirical studies focused on the level of information disclosure and the factors influencing it across different types of cooperatives in Vietnam.

The proposed research directions hold significant potential, with findings that could assist cooperatives and regulatory bodies in formulating relevant policies. These policies could promote increased transparency and accountability in financial information disclosure practices, ultimately enhancing the overall governance of cooperatives.

By exploring both established and novel factors within the context of various cooperative types, this research aims to contribute valuable insights that can drive the development of tailored strategies for improving financial transparency in the cooperative sector.

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