

Is Financial Communication on Euronext Brussels linked to Ownership Structure?

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Abstract

The aim of this research is to study the financial communication's quality of firms quoted on the NYSE Euronext in Brussels and to find a link with the ownership structure.

To reach this goal we use two techniques. First of all, we build an analysis grid of annual report in order to get a score for each company of our sample.

Then we use a Logit model in order to regress the probability of having a good quality score of financial communication with ownership structure variables and other control variables.

The results show that concentration capital in the hands of institutional investors and families tend to push companies to disclose financial information of higher quality in their annual report. The size of the firm and its level of debts also seem to have a positive impact.

JEL classification numbers: G32

Keywords: Ownership structure, financial communication, Euronext Brussels, concentration/dilution capital

1 Introduction

In Belgium, the analysis of financial communication, on the internet or in the annual report, has focused on the unregulated markets of the NYSE Euronext: the Free Market and Alternext (Pozniak, 2010; Pozniak & Croquet, 2011; Pozniak, 2013). Those markets are especially design for small and medium sized firms because their rules and obligations are softer than on the regulated market.

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Previous studies have highlighted that:

- There is a big diversity in the way to communicate financial information
- The link between ownership structure and financial communication is not obvious and influenced by the firm performance.

Quite the same results are found by Labelle & Schatt (2005) and Bauweraert & Colot (2013) who studied non-financial firms quoted on Euronext Paris.

The regulated market of the NYSE Euronext imposes important obligations of financial communication but has no requirement regarding the quality of this communication.

This research has two goals. First, we want to evaluate the financial communication's quality in the annual report of firms quoted on Euronext Brussels.

Second, we want to highlight the link between the ownership structure and financial communication's quality, like Labelle & Schatt (2005), de Burako (2007), Khodadadi et al. (2010) and Ben Ayed-Koubaa (2011) did.

The first point of this paper present the literature review related to the link between the ownership structure and financial communication's quality and our research hypothesis.

The second part present the methodology used to evaluate financial communication's quality and to highlight the link with the capital structure.

The third part shows the results of the annual report analysis and the Logit Model. Conclusion and future researches possibilities are finally exposed.

2 Literature Review

Several theories are usually mobilized when the link between the structure of property and financial communication is explored.

The first theory concerns the positive link between the part of the capital held by the public and the quality of financial communication. This theory is supported by the Agency theory developed by Jensen and Meckling (1976). The agency costs engendered by the separation of the property and the management of the company indeed increase when the shareholding is diluted. A financial communications of better quality would thus be a necessity in this type of company to improve the transparency of the management in the eyes of the shareholders.

The positive impact of capital dispersion on financial communication's quality is highlighted by several empirical researches, presented in Table 1.

Table 1: Impact of capital dispersion on financial communication’s quality

<i>Autors</i>	<i>Sample</i>	<i>Aim of the study</i>	<i>Methodology</i>	<i>Capital dispersion’s measure</i>	<i>Financial communication’s measure</i>	<i>Observed effect</i>
Asbaugh, Johnstone & Warfield (1999)	290 un-financial firms identified thanks to their AIMR rating.	Determiners of investor relation’s quality on the internet	Logistic Regression	Free float	Scoring	Positive
Bollen, Hassink & Bozic (2006)	270 firms quoted in Brussels, Paris, Amsterdam, London, Johannesburg & Sidney, with biggest market capitalization	Determiners of investor relation’s quality on the internet	OLS Regression	Free float	Scoring	Positive
Pozniak (2013)	68 firms quoted on French and Belgian un-regulated markets.	Determiners of internet financial communication	OLS Regression	Free float	Scoring	Un-signif icative

The literature review concerning the connection between dispersion of the capital and quality of the financial information brings us to put the hypothesis 1 has follows:

Hypothesis 1 : Companies with diluted capital present a financial communication of higher quality.

The second theory is connected to the influence of the capital concentration on financial communication’s quality. Most of the empirical studies seem to validate the negative effect of the capital concentration financial communication’s quality. The transparency of the financial information would seem less necessary within companies controlled by a majority shareholding.

Table 2: Impact of capital concentration on financial communication's quality

<i>Autors</i>	<i>Sample</i>	<i>Aim of the study</i>	<i>Methodology</i>	<i>Capital concentration's measure</i>	<i>Financial communication's measure</i>	<i>Observed effect</i>
Gelb (2000)	3219 firms (except financial firms)	Link between capital concentration and financial communication	OLS regression	Amount of share held by majority shareholders (min 10%).	AIMR disclosure ranking	Negative
Paturel, Matouissi & Jouini, (2006)	SBF 120 and FTSE 100 (except financial firms)	Determiners of internet financial communication	OLS regression	Amount of share held by majority shareholders (min 5%).	Scoring	Negative
Ben Ali & Gettler Summa (2006)	SBF 120 (except financial firms)	Link between capital structure and financial communication	Logistic regression	Herfindhal's index	Nominated for best annual report award	Negative
Abdelsalam, Bryant & Street (2007)	120 firms quoted on the London Stock Exchange	Determiners of internet financial communication	OLS regression	Amount of share held by majority shareholders (min 3%).	Scoring	Un-significative
Barredy & Darras, (2008)	203 family firms	Link between capital concentration and internet financial communication	AFC and non-parametric test	Min 50% held by a family	Scoring	Negative
Almilia (2009a)	303firms quoted on the Indonesia stock exchange	Determiners of internet financial communication	Logistic regression	Amount of share held by majority shareholders	Scoring	Positive
Ben Ayed-Koubaa (2011)	61 firms of SBF120 studied from 2002 to 2007	Link between corporate governance and financial communication's quality	OLS regression	Existence of a company control or not	Mistake of financial analysts' forecast	Positive

However, the argument according to which the capital concentration would have a negative impact on the quality of the revealed financial information seems rather restrictive given the various types capital concentration and their links with the control of the company. In a context of concentrated property, the conflicts of agency are especially situated between the shareholders of control and the minority shareholders (La Porta, Lopez de Silanes, Shleifer & Vishny, 1998). The control shareholders can effectively be tempted to appropriate "*private profits besides the public profits*" (Ledentu, 2008: 27) and / or to maintain narrow relations with the manager (Denis & McConell, 2003). Accordingly, the level of financial transparency of companies with concentrated shareholding can strongly vary according to the level of informative asymmetry between majority shareholders and minority shareholders.

Two cases of capital concentration here to be envisaged: the case of the concentration in the hands of external shareholders of control such as institutional investors and case of the company concentrated in the hands of families. The impact analysis of these two types of concentration on financial communication's quality engenders two different argumentations even if it seems that the existence of control shareholders tends to reduce the managerial opportunism (Demsetz & Lehn, 1985).

The first argumentation is the based on the manager's monitoring and the disciplinary role played by the external control shareholders who would favor the performance of companies (Kaplan & Minton, 1994 ; Morck, Nakamura & Shivdasani, 2000 ; Gordon & Smid, 2000 ; Chen, 2001 ; Wiwattanakantung, 2001). This disciplinary role would be strengthened within the framework of the shareholder structures dominated by institutional investors (Agrawal & Mandelker, 1990 ; Jiang & Habib, 2009). This type of

shareholding is particularly requiring in terms of financial quality information (Healy et al., 1999 ; Bushee & Noe, 2000). The studies of Burako (2007), Khodadadi et al. (2010) and Ayed-Koubaa (2011) highlight positive link between the percentage of capital in the hands of institutional investors and the quality of financial information disclosure.

Hypothesis 2: Companies with capital concentrated in the hands of institutional investors present a financial communication of higher quality.

The second argumentation argues that a company held by a family has a best knowledge of the activities and so a lower need for information. Besides, several studies showed that the interests of the minority shareholders were better protected within the family companies because of the presence of the family within the capital and within the management of the company. There would be thus within these companies a weaker propensity to disclose financial information (Ben ali & Gettler-Summa, 2006; Barredy & Darras, 2008 ; Amal & Faten, 2010).

Agency conflicts between majority and minority shareholders would be higher in family company. Those conflicts incite the majority to maintain the informative asymmetry between their block of control and the minority shareholding by checking the information disclosure (Ali, Chen & Radhakishnan, 2007).

Hypothesis 3: Companies with capital concentrated in the hands of a family present a financial communication of lower quality.

The link between the ownership structure and financial communication's quality could be influenced by others variables such as the firm's size, its performance, and its level of debts.

Many academic researchers highlight the size effect on the level of financial disclosure (Craven & Martson, 1999 ; Asbaugh, Johnstone & Warfield, 1999; Ho & Wong, 2001; Larran & Giner, 2002; Bonson & Escobar, 2002; Debreceny, Gray & Rahman, 2002; Ettredge, Richardson & Scholz, 2002; Oyelere, Laswad & Fisher, 2003 ; Rodriguez & Menezes, 2003; Mendes-da-Silva & Christensen, 2004; Bollen, Hassink & Bozic, 2006; Andrikopoulos & Diakidis, 2007; Almilia, 2009a et b; Pozniak & Croquet, 2011; Pozniak, 2013). Several reasons are put forward:

- The information asymmetry between managers and shareholders is higher in bigger companies. So those companies suffer from higher agency costs. In order to reduce this information asymmetry and the agency costs, bigger companies tend to disclose more financial information.
- Bigger companies are more visible publicly and more susceptible to draw the attention of the authorities. So they disclose more financial information to look after their reputation and their image.
- Having an information system more developed than small companies, production and communication of information represent a lower cost for large companies.

Hypothesis control variable A: Bigger companies present a financial communication of higher quality.

The impact of capital 'structure is strengthened by the fact that within companies with strongly diluted shareholding, the risk of eviction of the managers is increased and strengthened by possible bad performances of the company (Labelle & Schatt, 2005). A financial disclosure of high quality could help the manager to differ from its bad performances and to avoid its eviction.

Bad performance could lead to takeovers in which the rate of manager replacement is raised (Martin & Mc Connell, 1991). Levant (2000) discovers that in 60 % of the cases of strategic acquisitions, the manager is replaced the year following the takeover.

Futhermore, conflicts between majority and minority shareholders would be less important in good performing firms (Charlier & Lambert, 2013).

Hypothesis control variable B: Companies with higher performance level present a financial communication of higher quality.

The role played by company's level of debts on the level of financial disclosure was studied by several empirical researches. Most of these works (Debreceeny, Gray & Rahman, 2002 ; Oyelere, Laswad & Fisher, 2003 ; Laswad, Fisher & Oyelere, 2005 ; Andrikopoulos & Diakidis, 2007 ; Almilia, 2009a) discovered a positive link. The authors mobilize the agency theory to explain that: the increase of the debts came with the increase of agency conflicts between shareholders and creditors. To reassure its creditors on its capacity to pay its debts, the company will tend to communicate more information. According to Jensen and Meckling (1976) the most indebted companies should rather communicate voluntarily information with the stakeholders of the company to reduce the information asymmetry.

Hypothesis control variable C: Companies with higher debts level present a financial communication of higher quality.

3 Data and Methodology

In this section, we present first of all the sample which our study concerns.

Then, we develop elements allowing estimating the quality of financial communication and we explain how we built our analysis grid of annual reports.

The scoring is specified and we demonstrate the way this score allow us to classify our sample in two groups: the companies with higher quality of financial communication and the others.

Finally, the Logit model is exposed and the explanatory variables are defined.

3.1 Sample

This study concerns 68 firms quoted on the stock market of Brussels which belong to the NYSE Euronext. We choose to focus on companies members of compartment A and C. This choice allows measuring the size effect. Proxy of the size is naturally the market

capitalization because companies quoted on the compartment A have market capitalization over the billion euros (blue chips); companies quoted on the compartment C have market capitalization lower than 150 million euros (small caps).

In our sample, 47 Belgian companies are situated in compartment A and 21 in the compartment C.

3.2 Evaluation of Financial Communication's Quality

The study of the financial communication's quality is not a recent subject because one of the first studies carried out on the subject is the one of Cerf (1961). However, Ben Ayed-Koubaa (2011) underlines the rarity of the definitions of the quality of the information and the fact that it makes difficult evaluating this quality. According to Michailesco (1999), to be of quality, information needs to be sincere, valuable and understandable. Bertrand (2000) defines the quality of the information through the meeting of three criteria: the comprehensiveness, the precision and the reliability.

Many authors measure the quality of information with the level of voluntary disclosure. They can be divided in two categories which use the annual rapport as the main communication tool.

The first category study the voluntary effort of communication (Firth, 1979; Mac Nally et al. 1982; Chow & Wong Boren, 1987; Cooke, 1989 & 1991; Meek et al. 1995; Raffournier, 1995; Michailesco, 1999; Depoers, 1999; Ho & Wong, 2001; Chau & Gray, 2002; Ferguson et al. 2002; Akhtaruddin et al. 2009).

The second category study sector information disclosure and corporate communication (Bradbury, 1992; Mc Kinnon & Dalimunthe, 1993; Mitchell et al. 1995; Scott, 1994; Entwistle, 1999; Stolowy & Ding, 2003).

Those studies use the same methodology to measure the level of voluntary disclosure: with the help of an analysis grid, they count the item of the grid available in the annual rapport and they get a score of voluntary disclosure.

Ben Ayed-Koubaa (2011) mentions the evaluation of information's quality by independent organisms. Three kind of evaluation are possible:

- Scores given by "Association for Investment Management and Research » (AIMR). Those scores were used by several researchers (Lang & Lundholm, 1996 ; Sengupta, 1998 ; Healy et al., 1999 ; Bushee & Noé, 2000 ; Gelb, 2000 ; Botosan & Plumlee, 2002);
- Transparency index developed by the international center of research and financial analysis (used in Hope, 2003);
- The evaluation of SBF 120 done by Sofres Institute in 2000 at Euronext's demand. This evaluation was used at first place by Labelle & Schatt (2005).

Ben Ayed-Koubaa (2011) says that the precision of analysts' previsions is a better measure of information's quality than a score. Nevertheless we can observe very different prevision and we are not sure that prevision's gap is a signal of bad communication.

In this study the quality of financial communication is measured by a scoring established thanks to our analysis grid of 40 items. The constitution of this analysis grid is based on the works of Botosan (1997), Robb et al. (2001), Beattie & Pratt (2002), Vanstraelen et al. (2003) and Beattie et al. (2004). They developed their analysis grid inspiring themselves of Jenkins committee's report. This committee, created in 1991 by American Institute of Certified Public Accountants, was in charge of working on the relevance and the utility of

financial communication. This report proposes recommendations to improve the quality of financial communication of companies (Robb et al. 2001), it is a foundation in this domain and it influences very widely researches in the financial communication's fields (Beattie et al. (2004).

Table 3: Analysis grid of annual reports

1) Financial and non Financial informations	
a. Financial	
1	Return on assets (ROA)
2	Return on equity (ROE)
3	Cash-flow
4	Investment amount
5	Operating capital
6	Earnings per share (EPS)
7	Market capitalization
b. Non Financial	
8	Number of workers
9	Salaries
10	Markets shares
11	Numbers of sales
12	Price for a product
13	Customers' satisfaction
2) Managers' analysis	
14	Variation of sales
15	Variation of operating profit
16	Variation of financial costs and revenues
17	Variation of net profit
18	Variation of receivables
19	Variation of investments
20	Variation of market shares
3) Forecasting of..	
21	Future market shares
22	Future cash-flow
23	Future investments
24	Future sales
25	Future earnings
26	Future risks
27	Future opportunities
28	Reasons explaining difference between actual results and announced et les prévisions faites précédemment
4) Information about managers and shareholders	
29	Identity and description of managers
30	Identity of important shareholders and their number of shares
31	Number of managers 'shares
32	Number of workers 'shares
33	Managers 'salaries and how it is calculated
5) Information about firms 'environment	
34	Description of the firms
35	Objectives of the firms
36	Information about competitors
37	Information about barrier entry
38	Information about principal products / services
39	Information about the market
40	Information about contract with bigger customers

Using the analysis grid to measure the quality of financial communication, we give 0 point when the item is absent, 1 point when available and 2 point when the item is developed in details. There are 40 items in our grid, so the score is minimum 0 and maximum 80.

The financial communication tool analyzed in this study is the annual report 2011, available on companies' websites.

Bertrand (2000) says that the annual report is a privileged channel evaluating financial communication's quality. Indeed, it's a privileged source of information for institutional investors and financial analyst, the coherence between the various supports of financial communication and the accessibility of the document.

Hail (2002) underlines the difficulty evaluating financial communication because the researcher's perceptions could influence the score. To limit this bias, only one researcher of our team analyzed the 68 annual reports. Furthermore, a validity test (Hassan & Marston, 2010) is made to check the results 'stability. Actually, 3 rapports chosen randomly were analyzed a second time, some weeks after the start of the study. The scores were the same so it shows the stability in the evaluation.

Table 4: Average scores of financial communication

Firms	Average Score (Std. Dev)	Score max.	Score min.
Blue chips 21 firms	39.05 (13.21)	54	12
Small caps 47 firms	32.49 (10.70)	51	8
Total Sample 68 firms	34.51 (11.83)	54	8

Looking table 4, we can see a weak average score of financial communication: 34.51 points up to 80 points in the grid. The second remark concerns the average scores slightly higher for companies in compartment A of the NYSE Euronext Bruxelles. The highest minimum and maximum scores also find themselves within the companies of big capitalization.

The following table presents a division of the sample according to the average score and size of companies.

Table 5: Average scores of financial communication according to companies' size

Repartition according average score	Number of firms	Number of firms according size criteria	Percentage
Score < 34.51	29 firms (42.65%)	5 blue chips	23.81%
		24 small caps	51.06%
Score > 34.51	39 firms (57,35%)	16 blue chips	76.19%
		23 small caps	48.94%

When the sample is cut according to the average score of financial communication, we notice that more than half companies of the sample present an individual score upper to the average score of 34.51 points. Besides, more than 75 % of blue chips of the total sample belong to this category of companies presenting a better quality of financial

communication. This observation pleads in favor of a size effect on company's financial communication quality. This effect will be tested during this research.

3.3 Logit Model

To test our hypothesis presented below we use a Logit model which allow regressing the probability for companies to be have a financial communication score higher than the average score of the sample. Contrary to the Probit model, the Logit model does not suppose the normal distribution of residues (Evrard, Pras & Roux, 2009).

The aim of this regression is to predict the membership group according to explanatory variables. Two groups are defined:

- Firms with a communication score higher than the average score of the sample;
- Firms with a communication score lower than the average score of the sample.

The general model takes on the following shape: $P = P(Y=1/X_1, \dots, X_p)$ where :

- Y is the dependent variable, the probability of financial communication quality;
- X_1, \dots, X_p are the explanatory variables.

Table 6: Variables definitions and measures

Variables	Definitions	Measures
SCORE	Financial communication score	Binary variable taking the value 1 if the score of the company is higher than the average score of the sample (34.5), otherwise 0.
FREEFLOAT	Capital dispersion	Percentage of shares in the public
INVINS	Capital concentration	Percentage of shares held by institutional investors
FAM		Binary variable taking the value 1 if the percentage of shares held by a family is higher than 25%, otherwise 0.
ROE	Performance of the company	$ROE = (\text{cash flow}) / \text{Equity capital}$
SIZE	Size of the company	Natural logarithm of market capitalization
DEBT	Level of debts	Ratio : Total debt / total assets

4 Main Results

The Mobel Logit 1 study the link between capital dilution and financial communication's quality.

Table 7: Capital dilution and financial communication’s quality

logistic regression					number of obs =	65
log pseudolikelihood = -37.26176					wald chi2 (4) =	11.83
Iteration n°4					Prob >chi2 =	0.0187
					Pseudo R2 =	0.166
Score	Coef.	Robust Std.Err.	z	P> z	[95% Conf.Interval]	
freefloat	-0.0077567	0.0106639	-0.73	0.467	-0.0286577	0.0131442
debt	0.0275466	0.0114351	2.41	0.016	0.0051342	0.049959
profit	-0.0068546	0.0114926	-6	0.551	-0.0293797	0.0156704
size	0.3098301	0.1403957	2.21	0.027	0.0346596	0.05850005
_cons	-3.998183	1534474	-2.61	0.009	-7.005696	-0.9906692

Model Logit 1 is statistically significant at 5 percent.

Coefficient of the “free float” variable, measuring the capital dilution, appears to be un-significant. This variable does not explain the financial communication’s quality. Our first hypothesis can’t be validated.

Otherwise variables “debt” and “size” are statistically significant at 5 percent. It means that bigger firms and more indebted firms have a higher probability to show a better financial communication.

The second model studies the link between capital concentration in the hand of families or institutional investors and financial communication’s quality.

Table 8: Capital concentration and financial communication’s quality

logistic regression					number of obs =	65
log pseudolikelihood = -30.961915					wald chi2 (4) =	16.84
Iteration N°4					Prob >chi2 =	0.0048
					Pseudo R2 =	0.307
Score	Coef.	Robust Std.Err.	z	P> z	[95% Conf.Interval]	
instinvestor	0.039338	0.0191559	2.05	0.04	0.001793	0.0768829
family	2.456513	0.7546758	3.26	0.001	0.9773759	3.935651
debt	0.036792	0.0136347	2.7	0.007	0.0100685	0.0635155
profit	-0.0040015	0.0093423	-0.43	0.668	-0.022312	0.014309
size	0.2507048	0.1345616	1.86	0.062	-0.013031	0.5144406
_cons	-5.274659	1.957313	-2.69	0.007	-9.110923	-1.438395

Model Logit 2 is statistically significant at 1 percent.

Variables “family” and “instinvestor”, measuring the capital concentration, are also statistically significant at 1 percent. It means that the probability of having a better financial communication is higher for firms held by families or institutional investors.

This result allows us to validate our hypothesis 2.

However the positive impact of “family” variables goes against our hypothesis 3 and the results of previous researches (Ben ali & Gettler-Summa, 2006; Barredy & Darras, 2008; Amal & Faten, 2010). This result can be explained by less items of the analysis grid available in the annual report but more developed. Those detailed information can bring more points in the total scoring. So family firms would communicate fewer items but they would more detail them.

To complete the previous results, the matrix of confusion was elaborated from the explanatory variables of the second tested model. The results of this matrix allow to validate the discrimination of the financial communication’s quality

Table 9: Matrix of confusion.

		Classified		
		0	1	Total
True Score	0	23 79.31	6 20.69	29 100.00
	1	9 25.00	27 75.00	36 100.00
	Total	32 49.23	33 50.77	65 100.00

Thanks to this matrix, we can find that only 15 companies appear as badly classified on the basis of the discriminating variables inserted into the logit model. It means that for 77 % of the companies of the sample, there is a match between the theoretical classification based on the logit model and the classification observed during the analysis of annual reports. This percentage of well classified companies is completely acceptable and valid the discriminating capacity of the explanatory variables.

5 Conclusion

The aim of this paper was double. First, we wanted to study financial communication’s quality in the annual report of blue chips and small caps quoted on Euronext Brussels. Then, we wanted to identify ownership structure variables which influence this quality.

The ownership structure was measured by the way of capital dilution and concentration, and also controls variables such as size, performance and level of debts.

The results of our Logit model show that a firm has more chance of having a high quality communication in its annual report if:

- the market capitalization is high
- the level of debt is high
- institutional investors have a high part of the capital
- families have a high part of the capital

The originality of this paper was to study firms quoted on the regulated markets of Brussels despite other Belgian studies focused on unregulated markets.

Then, the way of evaluating the quality of financial communication is also original because items of the analysis grid are weighted.

All studies suffer from limits. In this paper, we can point out the scoring technique and the subjectivity in giving 1 or 2 point for an item.

In future researches we could study more in depth the positive impact of family ownership highlighted in this paper and we could enlarge the sample to midcaps.

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