

**Empirical Study of the Current Views of Corporate  
Voluntary Disclosures and Firm Value**

**By**

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A thesis submitted to  
the University of Sri Jayewardenepura  
in partial fulfillment of the requirements  
for the Degree of Master of Science in Management  
on 09<sup>th</sup> July 2015

## DECLARATION

I, Gatawa Kandage Chirath Jeewantha declare that this Master thesis entitled “Empirical Study of the Current Views of Corporate Voluntary Disclosures and Firm Value” is my own work. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma.



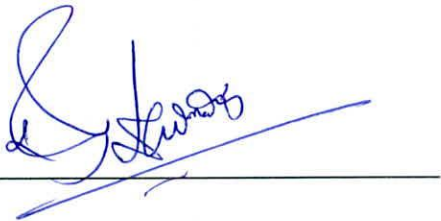
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## RECOMMENDATION OF THE SUPERVISOR FOR THE THESIS

This is to certify that this thesis submitted by Gatawa Kandage Chirath Jeewantha (5266FM2011022) in partial fulfillment of the requirement for the Degree of Master of Science in Management at the Faculty of Graduate Studies of the University of Sri Jayewardenepura is a record of the own work carried out by the student under my supervision. This thesis has been submitted with my approval.



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## LIST OF TERMS AND ABBREVIATIONS

BV	- Book Value
CA Sri Lanka	- The Institute of Chartered Accountant of Sri Lanka
CBSL	- Central Bank of Sri Lanka
CEO	- Chief Executive Officer
CSE	- Colombo Stock Exchange
CSR	- Corporate Social Responsibility
EPS	- Earnings Per Share
FASB	- Financial Accounting Standard Board
GAAP	- Generally Accepted Accounting Principle
GRI	- Global Reportive Initiatives
IFRS	- International Financial Reporting Standards
MV	- Market Value
OECD	- Organization for Economic Corporation and Development
ROA	- Return on Assets
ROE	- Return on Equity
SEC	- Securities and Exchange Commission
TBL	- Triple Bottom Line
VDS	- Voluntary Disclosure Score
VIF	- Variance Inflation Factor

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## ABSTRACT

Stakeholders' demands for transparent information have created a challenging disclosure environment for listed companies in Sri Lanka. Therefore, the corporate disclosure practices in Sri Lanka have changed dramatically over the last three decades. The purpose of this study is to expand the understanding of corporate voluntary disclosures in Sri Lanka while ascertaining the relationship between corporate voluntary disclosures and firm value. Although a few studies have been undertaken in Sri Lanka, this study provides new insights about voluntary disclosures in Sri Lankan context. Sixty non-financial companies were selected based on market capitalization for the study purpose. Company annual reports from 2009 to 2014 were scrutinized to find the voluntary disclosures. Market related information was gathered from the data library of Colombo Stock Exchange. Panel regression was utilized due to the nature of time series and cross sectional.

This study supported for agency theory and legitimacy theory influencing the voluntary disclosure practices in Sri Lanka to reduce the information asymmetry. The study demonstrated that although the level of voluntary disclosure in Sri Lankan listed companies is lower. However, it is acceptable compared to other similar countries. It is confirmed that the size of firm was the most significant factor in determining voluntary disclosure practices in Sri Lanka. Moreover, block holders negatively influenced to the voluntary disclosures in Sri Lankan listed companies. Nevertheless, corporate governance variables do not have any impact to the voluntary disclosure practices. Furthermore, profitability, leverage, industry are not influencing voluntary disclosure practices. This study has found that auditors' duty has been limited to financial

statements in Sri Lankan listed companies. This study provides the evidence that corporate voluntary disclosures are significant in determining the firm value in Sri Lanka. The questionnaire survey found that still investors believe voluntary disclosures in annual reports provide support for their decision-making even though their decisions are not largely dependent on voluntary disclosures.

The outcome of this study would encourage developing standards for disclosing information in annual reports and persuading corporate managers to reform disclosure practices. Results of this study might be interesting to regulators, investment analysts and market participants. Moreover, the cumulative effect of the major conclusion that are made at the end of this study would help future policy and procedure formulation in order to increase the quality and quantity of voluntary disclosures in Sri Lanka.

Key words: *voluntary disclosure, value relevance, firm value, agency theory,*

*information asymmetry*