

# Content Analysis Of Board Reports On Corporate Governance, Internal Controls And Risk Management: Evidence From France

Eustache Ebondo Wa Mandzila, KEDGE Business School, Marseille, France  
Daniel Zéghal, University of Ottawa, Canada

## ABSTRACT

*The French legislature has mandated in 2008 that the board chairperson reports on governance, internal controls, and risk management approach with the objective to enhance corporate disclosures to investors. This study examines the content of board chair reports to assess their relevance and compliance with mandated disclosure requirements. Based on a sample of 109 french publicly listed companies in 2009, Our results show that, with the exception of banks subject to a more stringent regulatory standard, the mandatory nature of the legislation did not translate in extended disclosures about internal controls and risk management practices. We further observe significant variations among the different indices of disclosure particularly with regards internal accounting and financial control. The multivariate results validate the influence of the chosen internal control framework as well as firm characteristics on the content of the information disclosed about governance, internal control, and risk management practices.*

**Keywords:** Corporate Governance; Internal Controls; Risk Management; Corporate Disclosure

## 1. INTRODUCTION

To restore investor confidence shaken by successive financial scandals in the early 2000s, the French Parliament voted on August 1, 2003, to enact the Law on Financial Security (LSF, 2003), similar to the United States' Sarbanes-Oxley Act. The Act requires that the board's chair report annually on the organization of the board's work and on internal control practices implemented at the company level. This transparency requirement fulfills one of the principles of good governance issued by the OECD (2004). However, the French legislation did not initially mandate a particular framework for reporting on internal control and risk management practices.<sup>1</sup> Therefore, board chairpersons enjoyed a significant discretion on the matters to be reported to shareholders. Previous studies (Gumb & Noel, 2009) confirmed the diversity in board chairs' interpretations of disclosure requirements as well as their visions on what they think their shareholders want to know (Gumb & Noël, 2009). This institutional vacuum was filled by first establishing a French framework on internal control and risk management (Autorite des Marchés Financiers (AMF<sup>2</sup>), 2007) and then by creating a code of corporate governance practices for companies listed, better known under the AFEP/MEDEF code (2008)<sup>3</sup>. Thus, French companies now have choices between several internal control frameworks (AMF, COSO and other industry specific standards) and corporate governance reporting requirements on which they will now base their board reports to be in accordance with article 116 of the Financial Security Act as amended by the act of July 3, 2008, which requires disclosure of the following (LSF, 2003):

<sup>1</sup> French companies listed on the French stock market were initially required to refer to the COSO framework (1992) Committee of Sponsoring Organization.

<sup>2</sup> AMF is the French Securities Commission.

<sup>3</sup> The AFEP / MEDEF code has undergone several revisions since then.

"- the composition and conditions of preparation and organization of Board meetings;  
- Procedures for internal control and risk management detailing including the procedures relating to the preparation and processing of accounting and financial information for the parent company and, where appropriate, consolidated accounts . . ."

It is striking that since the passage of the Financial Security Act in 2003 and its subsequent amendments (the adoption of a framework of internal control in 2007 and a code of corporate governance for listed companies in 2008), no study has been undertaken in France to assess whether the content of the reports was consistent with the mandated standards. The overall objective of this paper is to verify and analyze whether the contents of the chairperson's reports on the organization and functioning of the board of directors or supervisory board, the division of powers, executive compensation, internal control procedures, and risk management provided relevant information to the company's shareholders in 2009. More specifically, to the extent that companies now have a choice among multiple frameworks to describe internal control and risk management, we first review the factors that influence their choice of a particular framework and second, we determine the characteristics of firms that explain the extent of their disclosures on governance, internal control, and risk management practices.

The contribution of this work is that it is the first academic paper to consider this issue. Indeed, the review of the mandatory (or voluntary) publication of information is based on institutional theory (North, 1981, 1990) and Nelson's (1970) theory of regulation as an alternative to market failures and part of reducing the information asymmetry between managers and shareholders. Thus, we provide an empirical analysis of the content of the mandatory reports which need to be disclosed by the board chairperson to the shareholders. Our paper intends also to complement and extend the previous work of Gumb and Noël (2009), who analyzed the content of the chairmen's reports with a special consideration<sup>4</sup> on the quality of internal control description. Our study goes beyond a single framework to include three disclosure components: governance, internal control, and risk management, taking into account regulatory evolution. We also examine whether the extent of disclosure varies according to the chosen internal control.

The paper is organized as follows: in the first section, we develop the literature review and present our research hypotheses. The third section is devoted to the research methodology. The results are presented in the fourth section and are followed by a conclusion.

## **2. LITERATURE REVIEW AND RESEARCH HYPOTHESIS**

Few studies have analyzed the content of the board chairmen's reports in terms of governance, internal control, and risk management. Gumb and Noël (2009) conducted a lexical analysis of reports published in 2005 when there was no French framework of internal control and risk management. The study highlights a "vision [of] shareholder reports of internal control and a delicate balance between what is hidden and what is shown." (Gumb & Noel, 2009 ; p.2). Hoitash et al. (2009) studied the possible link between corporate governance and disclosure of internal control weaknesses in the reports of US leaders. They showed that the level of internal control weakness disclosure was associated with the existence of audit committee members who had expertise in auditing and accounting. Following the enactment of the Sarbanes-Oxley Act in the US, Wang (2010) examined whether a link exists between the disclosure of internal control by CEOs and CFOs and their level of remuneration and their turnover. Managers who communicated little in their report on internal control often experienced disappointing results in terms of turnover and lower pay. Wang also stated that mandatory disclosure of information would help to reduce information asymmetry.

Early study studies in France (Gumb & Noel, 2009) focused exclusively on internal control disclosures even though there was no frame of reference or application guide at that time. The French securities commission (AMF) has filled this gap by establishing an internal control framework for French listed companies. Publicly listed firms in France can now choose between three internal control frameworks (AMF; COSO and industry specific particularly for banks and insurance companies). Given their specificities and disclosure requirements, we expect that the content of the board chairperson's report on corporate governance, internal control and risk management will vary

---

<sup>4</sup> At the time, the French securities commission did not publish yet a national framework for internal control and an application guide.

according to the internal control framework chosen at the firm level. In addition to the internal control framework, our study will control in the methodology section for other determinants of corporate governance disclosures.

**H1:** The extent of disclosures about corporate governance, internal control and risk management practices varies according to the chosen internal control framework.

### **3. RESEARCH METHODOLOGY**

#### **3.1. Sample and Data Sources**

This study is based on a sample of French companies listed on the Paris Stock Exchange in 2009 included in the SBF 120 index. It was not possible to obtain complete information on eleven of the SBF 120 companies so our final sample includes 109 companies in terms of their governance communication, internal control, and risk management. The financial data was extracted from the Mergent Online database. All other variables were collected from the companies' annual reports. Out of the 109 firms in our sample, 58 (53.21%) belong to the industrial sector, 39 (35.78%) in the service sector and 12 (11.01%) in the financial sector.

#### **3.2. Dependent Variable: Disclosure Index**

##### *3.2.1 Disclosure Index Construction*

Our first step has been to identify in the annual reports, the information identified as making well on the conditions for preparing and organizing the work of the Board, the internal control procedures relating to accounting and financial information, and risk management. For each of these three themes: governance, internal control and risk management, we have developed an index. Our second step was to develop an analytical text to identify, for each theme, the indicators that were associated with him.

The indicators relating to governance were grouped around three items: The Board of Directors Structure, Board human dimension, the conditions of board organization / Evaluation Board. These indicators are our summary of the information that the code of corporate governance for listed companies (AFEP / MEDEF, 2008) recommends that companies disclose in their report on governance. Our indicator called "the Board and the right structures" is composed of the following items: governance code, management structure, size of the Board of Directors by distinguishing the number of independent directors, directors profile and number of standing committees. The other information or items to be reported are: the principles for determining the remuneration of executive directors, total compensation and benefits in kind granted during the year, the retirement system, the remuneration of each director, the description of the share allocation policy for certain employees, the valuation at the time of grant, the standardized presentation of Directors' remuneration, the modalities of participation of shareholders in General Assemblies were grouped under the human dimension.

Finally, the third category that we called "Preparation and organization of the work of the Board / Evaluation Board" contains information or items on the frequency of meetings, the rate of participation in meetings, the topics, the average duration of meetings, approval of the report, the independent evaluation, self-evaluation, adequacy principles of good governance (AFEP / MEDEF, 2008) and structure of the report on the governance part. The information to communicate according to the AMF on internal control have been grouped into four indicators (general principles of internal control, accounting and financial organization, activity control, accounting and financial communication) and then decomposed into items. We have done the same for the information on risk management, which also includes four indicators (identification of main risks, analysis of the major risk management, procedures of major risks, risk monitoring and risk management procedures) and items. These indicators are based on the framework of the AMF (2007) and its application guide. These are the three indices : Governance, internal control, and risk management constitute our overall disclosure index.

### *3.2.2. Sources of Data and Coding Procedures*

Our study is based on the annual reports of the chair of the board of directors for 2009, the year in which the law of July 3, 2008, was enacted<sup>5</sup>. A coding scheme similar to that commonly used in content analysis of disclosure (Milne and Adler, 1999; Zéghal and Lajili, 2005), was established from 0 to 2: 0 when the information is non-existent, 1 when it is incomplete, and 2 when it is complete. When we identify in the report an expression or word that translates each of the themes, it qualifies as complete information. When it appears nowhere in the report, we consider that the information does not exist. Any information not specified or whose formulation can not reveal searched indicator is considered insufficient to fully inform readers. From this coding, it is easy to find an association with each indicator and topic score. The overall index is obtained by adding the scores for each indicator and theme.

## **3.3 Explanatory Variables**

### *3.3.1 The Choice of Internal Control Framework*

SBF120 companies use as internal control framework is the AMF, COSO or other standards (specific to the banking and financial sector or activity designed to adapt to the realities of the firm). These "other repositories" such as the AMF are ultimately derived from the COSO. The "internal control framework" variable was coded 2 if the company opts for the repository of the AMF, 1 if it opts for the COSO and 0 if it opts for other repositories.

### *3.3.2 Other Firm-Level Determinants the Extent of Disclosures About Corporate Governance, Internal Control and Risk Management Practices*

The firm characteristics included in the framework of our study may influence the content of the information on governance, internal control, and risk management disclosed by companies and have been the subject of much earlier research. We develop each of these characteristics of the company in the following paragraphs.

#### *Firm Size*

Previous studies (Hossain et al., 1994; Ahmed & Courtis, 1999; Eng & Mak, 2003; Gul & Leung, 2004;) have already established a relationship between firm size and the level of disclosure. The same positive relationship of governance practices was observed for companies listed on the Toronto Stock Exchange (Bujaki & McConomy, 2002; Labelle, 2002). It is interesting to note that the size of the company, measured by the logarithm of total assets (Zéghal, 1984), also has an impact on the strategies used to disclose corporate governance, internal control, and risk management.

#### *Business Sector*

Wallace et al. (1994) noted that companies operating in highly regulated industry sectors that face strict controls, such as the financial sector and insurance companies, disclose more information. However, according to Watson et al. (2002), companies in the media sector disclose less information on their financial ratios than companies operating in other sectors.

#### *Financial Profitability*

The results of studies on the relationship between financial profitability and the level of information disclosure are mixed (Lang & Lundholm, 1993; Labelle, 2002;). However, according to Bujaki and McConomy (2002), companies with poor financial performance improve their range of information on governance practices when put under pressure from investors, especially when the firm is overseen by financial analysts.

---

<sup>5</sup> French companies listed on the French stock market were required to refer to the COSO framework (1992) Committee of Sponsoring Organization.

*Growth Opportunities*

Growth opportunities are generally associated with information asymmetry and significant agency costs (Smith & Watts, 1992). Thus, companies with strong growth opportunities should disclose more information about their governance practices, thereby helping to reduce asymmetrical information between managers and investors. Hossain et al. (2005) and Ben Amar and Boujenoui (2008) have observed a positive relationship between growth opportunities and the level of voluntary disclosure.

*Leverage*

Frankel et al. (1995) and Diamond and Verrecchia (1991) analyzed the impact new share issues on voluntary disclosure. They show that firms searching to raise additional capital are more likely to provide forward looking information to lower information asymmetry. In contrast, Palepu (1986) observed a negative correlation between leverage and disclosure levels.

*Firm Complexity*

The firm complexity is an important factor in determining the characteristics of a company's governance system and the level of information disclosure and is measured by the level of diversification (Bhushan, 1989; Revang 1998 ; Bushman et al., 2004), the importance of investment in research and development (Simon, 1996 ; Moldeveanu & Bauer, 2004;), and company size (Faleye, 2006 ; Coles et al., 2008). In this research, firm complexity is measured through the interaction of the number of sectors and the number of countries in which the firm operates.

*Foreign Listing*

Companies listed on a foreign stock market generally face significant pressures to disclose information (Michailescu, 1999 ; Khanna et al., 2004). Based on a sample of Asian and European companies, Khanna et al. (2004) showed a positive relationship between cross-listing on U.S. financial markets and the quality of the information disseminated. Baek et al.(2009) examined the relationship between multiple listings and the level of financial information and found a positive influence of the many regulations concerning financial information and the high standards of publication required by the U.S. stock market. This environment, therefore, exerts a strong influence on the required quality and level of information.

*Board Size*

It is generally accepted that a board of small size is more efficient and can improve financial transparency, particularly with regard to corporate governance practices. However, according to Coulton & Coulton (2001) and Baek et al. (2009). There is no significant relationship between quality of information and the size of the board. Other studies analyzing the impact of board size on the quality of annual reports, as measured by the level of earnings management and fraud (Beasley, 1996), found a negative relationship between the board size and the volume and quality of financial disclosures.

*Board Independence*

The composition of the board is a very important factor in explaining the volume and quality of information disclosed specifically on governance practices and internal control systems. Gelb (2000) confirmed the hypothesis that the quality of financial publication was associated positively with the proportion of independent directors on the board. These results are of theoretical and practical interest. On a theoretical level, these results confirm the previous work of Forker (1992), who maintained that an increased presence of outside directors escalates the independence of the board and its members, who then become able to obtain information to monitor management. Cheng and Jaggi (2000) find a positive relationship between the proportion of independent directors and the extent of the information in the required financial disclosures. In practical terms, the law (NRE, 2001) and the Code of Corporate Governance for listed companies (AFEP/MEDEF, 2008) especially prove the independence of the board and are reinforced by these results.

CEO Duality

When the functions of chairman and CEO are combined it limits the independence of the board and reduces its ability to fulfill its oversight and governance and also disclosure. According to Gul and Leung (2004), firms in which the functions of chairman and CEO are separated have lower levels of voluntary disclosure because the board is less able to control its supervisory officers and thus reduce information asymmetry.

Ownership Structure

Ownership structure is often seen as a significant predictor of the level and quality of information disclosure. Thus, according to Gelb (2000), family control and ownership concentration increases the agency type of conflict (between the majority shareholders and minority shareholders), which significantly reduces the quality of financial publication. Family shareholders limit publication to better enjoy the privileges of ownership and avoid challenges of minority shareholders. These results are consistent with previous work (Ben Ali et al., 2008; Fan & Wong, 2002; Labelle & Schatt, 2005).

**4. RESULTS**

**4.1. Univariate Analyses**

*4.1.1 The Choice of the Internal Control Framework*

We reviewed the distribution of companies according to their internal control framework. The results of the descriptive statistics displayed in Table 1 show that in 2009, only half of companies in the SBF 120 index adopted the AMF framework, 34% of companies used the US COSO, and 16% used other standards (sector-specific or internal to the company).

**Table 1.** Distribution of companies according to the internal control framework and the stock index membership

	<b>SBF120</b>		<b>CAC40</b>		<b>SBF120 (other than CAC40)</b>	
AMF	55	50%	14	37%	41	58%
COSO	37	34%	14	37%	23	32%
Others	17	16%	10	26%	7	10%
Total	109	100%	38	100%	71	100%

Table 2 provides descriptive statistics of our sample firms. We distinguish between the subsample of firms that chose the AMF internal control and other firms. Table 2 shows the existence of differences between the two subsamples. First, companies that have opted for the AMF standards are generally smaller than those using other frameworks of internal control. Further, crosslisted firms are less likely to adopt AMF framework than firms listed only on the Paris stock market. The majority of companies that adopt the AMF standards are those that do not belong to the CAC 40 stock index. Companies adopting the AMF standards have smaller boards than those using COSO or other frameworks as a reporting benchmark. Finally, companies in the industrial and service sectors are more likely to adopt the AMF framework. Three-quarters of financial sector companies use the COSO framework and other standards of internal control.



Table 2. Descriptive statistics

Variables (Measure)	AMF: 50% average (Standard Deviation)	COSO & others: 50% average (Standard Deviation)	F-value	Significance level
<b>Size</b> (Ln Total Assets)	8.565 1.496	9.783 2.029	12.744	0.001***
<b>Profitability</b> (Return on Assets)	1.644 (8.905)	2.052 (4.422)	0.091	0.763
<b>Growth opportunities</b> (Market value relative to the carrying value of equity)	1.118 (1.222)	1.297 (0.936)	0.729	0.395
<b>Financial leverage</b> (Total debt / equity)	0.969 (1.289)	2.222 (8.274)	1.231	0.270
<b>Complexity</b> (Number of sectors * Number of zones of geographic representation)	89.778 (83.692)	103.815 (99.037)	0.633	0.428
<b>Size of Board</b> (Number of directors on the Board of Directors)	11.6 (3.861)	13.185 (3.598)	4.912	0.029**
<b>Board Independence</b> (% Of independent directors within the Board)	0.489 (0.184)	0.497 (0.184)	0.056	0.814
<b>Ownership structure</b> (% Of shares held by institutional investors)	0.435 (0.239)	0.414 (0.228)	0.223	0.637
	<b>AMF : 50%</b>	<b>COSO &amp; others: 50%</b>	<b>Khi-2</b>	<b>Significance</b>
<b>CAC 40 Membership</b> (Dichotomous variable: 1 if the firm belongs to the CAC40 and 0 otherwise)	25.45% (0.439)	44.44% (0.501)	4.327	0.038**
<b>CEO Duality</b> (Dichotomous variable: 1 if the CEO is also chairman and 0 otherwise)	47.27% (0.504)	38.89% (0.492)	0.781	0.377
<b>Foreign listing</b> (Dichotomous variable: 1 if the firm is listed abroad and 0 otherwise)	0.345 (0.479)	0.574 (0.499)	5.736	0.017
<b>Business Sector</b>	Industry	53%	-	-
	Services	54%		
	Financial	25%		

\*\*\* Statistically significant at the 1% level

\*\* Statistically significant at the 5% level

#### 4.1.2 Disclosure Indices

Table 3 provides disclosures scores about corporate governance, internal control and risk management practices (global index, governance index, index of internal accounting and financial control and analysis, and risk management index). The results show differences between the mean scores observed in the different indices and maximum theoretical scores. The difference is largest for the internal accounting and financial control index.

#### 4.1.3 Effect of the Choice of Framework on the Disclosure Level

According to the results in Table 4, companies adopting the AMF framework comply more with the requirements and have on average higher overall disclosure scores than companies that adopted COSO and other disclosure standards. This result, which is also confirmed for the sub-indices of governance, accounting and financial internal control, and risk management, can be explained by the degree of detail required by the AMF framework.

We also note that the companies subject to the AMF framework have higher average score than companies that have opted for other governance frameworks. They are also more homogeneous in terms of their governance practices

than companies adopting COSO and other benchmarks. In terms of accounting and financial internal control, companies that adopted the AMF standards have higher disclosure scores than COSO and other frameworks. The same is also true regarding risk management, in which the average score of companies that have opted for AMF is higher than that of companies who have chosen COSO or other frameworks. However, the dispersion of scores of this test is much lower for companies that adopt the COSO framework compared to those who opt for AMF and other tools.

**Table 3.** Distribution of the disclosure scores on governance, accounting and financial internal control and risk management practices.

Themes	Score Max	Mini	Maxi	Average	Median	Standard Deviation
<b>I. Governance (IGOV)</b>	<b>46</b>	<b>25</b>	<b>43</b>	<b>36.00</b>	<b>37</b>	<b>3.22</b>
1. Turnover & good structures	12	8	12	11.66	12	0.82
2. Turnover & humain dimension	18	6	18	14.72	16	2.50
3. Turnover evaluation	16	5	14	9.61	9	1.79
<b>II. Internal accounting and financial control (ICI)</b>	<b>44</b>	<b>12</b>	<b>42</b>	<b>32.91</b>	<b>34</b>	<b>5.42</b>
1. General Principles of Internal Control	10	1	10	7.32	8	2.19
2. Accounting and financial organization	18	5	18	14.05	14	2.79
3. Control activity	10	0	10	6.45	6	1.87
4. Accounting and financial communication	6	0	6	5.09	6	1.45
<b>III. Analysis and risk management (IAGR)</b>	<b>30</b>	<b>6</b>	<b>27</b>	<b>23.20</b>	<b>24</b>	<b>2.74</b>
1. Identification of risks	6	4	6	5.87	6	0.49
2. Analysis of the principal risks	6	2	6	5.89	6	0.58
3. Management processes the principal risks	6	0	6	5.11	6	1.16
4. Risk monitoring and risk management procedures	12	0	10	6.33	6	1.68
<b>Global Index (GI)</b>	<b>120</b>	<b>45</b>	<b>104</b>	<b>88</b>	<b>89</b>	<b>8.00</b>

The results of this test (see Table 4) show that the differences among the different types of references adopted by the companies in the sample (AMF, COSO, and others) are statistically significant in terms of the overall index and the sub-index of governance and risk management. Regarding the sub-index of internal control, the distribution of the sample companies into two groups—those who have opted for the AMF framework and those who opted for other tools—revealed statistically significant differences. It follows that the choice of the AMF framework for internal control therefore positively and significantly affects the disclosure indices studied. This result is surprising insofar as the COSO is not as severe as the AMF framework. The surprise of this result is explained by the fact that a number of companies that weren't listed on the U.S. market before 2007 were already using the COSO framework. Insofar as there is no fundamental difference between the requirements of AMF and that of COSO, companies may have preferred keeping their old framework and explain so in their reports.

**Table 4.** Analyzing the effect of the choice of framework on disclosure indices

Index/ IC Framework	Governance (IGOV) Index	Internal accounting and financial control Index(ICI)	Analysis and risk management Index (IAGR)	Global Index (IG)
AMF (55) <sup>1</sup> 50%	36.56 (3.00)	33.75 (4.33)	23.69 (2.18)	94 (6.48)
COSO (37) 34%	35.89 (3.18)	32.43 (5.61)	23.30 (1.85)	91.62 (7.12)
others (17) 16%	34.41 (3.59)	31.24 (7.62)	21.41 (4.77)	87.06 (11.62)
Total (109) 100%	36.00 (3.22)	32.91 (5.42)	23.20 (2.74)	92.1 (7.99)
F-value	3.047	1.629	4.831	5.418
Significance level	<b>0.052*</b>	<b>0.201</b>	<b>0.01***</b>	<b>0.006***</b>

\*\*\*Statistically significant at the 1% level

\*Statistically significant at the 10% level



4.2. Multivariate Analysis of the Determinants of Disclosure

Prior to multivariate comparison through a multiple regression model analysis, we analyzed the correlations among the explanatory variables through the correlation coefficients of Pearson and Spearman. Bivariate correlation tests show that there is not a strong correlation among the explanatory variables, with the exception of two variables related to firm size and belonging or not to the CAC 40 stock index.

The existence of the correlated variables firm size and membership or non CAC 40 with other explanatory variables led us to conduct a multivariate analysis between two groups of firms: large (belonging to the CAC 40) and small (not belonging to the CAC 40) to eliminate the problem of collinearity between the explanatory variables in the multiple regression model.

Table 5 provides the results of the multivariate analysis of the determinants of disclosure about corporate governance, internal control and risk management. The results show satisfactory explanatory power of all variables studied. Also, we find that all variables explain the variations in the indices studied for companies not belonging to the CAC 40 compared to those that belong to this stock index. The analysis of the regression results in Table 5 show that several variables are significantly related to disclosure indices. For companies that do not belong to the CAC 40, the choice of the AMF internal control framework positively affects the overall disclosure index, the index of internal control and analysis, and risk management. These results show that the framework of internal control has a decisive impact on the disclosure of information (Fang & Haiyan, 2012).

Table 5. Multivariate Analysis of the determinants of levels of disclosure on governance, internal control and risk management practices

Variables	Global Index				Governance Index			
	CAC 40		SBF120 other than CAC40		CAC 40		SBF120 other than CAC40	
	Coef	Sig.	Coef	Sig.	Coef	Sig.	Coef	Sig.
Profitability	-.155	.392	-.053	.657	-.070	.711	.127	.358
Growth opportunities	-.181	.314	.058	.615	-.096	.609	-.068	.608
Financial leverage	.030	.861	-.039	.742	.095	.603	-.052	.701
Sector of activity	-.078	.708	.055	.627	.355	.111	.210	.111
IC Framework	-.124	.518	<b>.504***</b>	.000	-.125	.536	.125	.360
Complexity	.202	.284	.121	.289	<b>.415**</b>	.041	.025	.848
Board Size	-.317	.205	.154	.199	<b>-.517*</b>	.054	.029	.834
Board Independence	-.242	.328	<b>-.268**</b>	.038	-.227	.380	-.104	.479
CEO Duality	.152	.370	<b>-.253**</b>	.033	<b>.442**</b>	.018	-.169	.214
Ownership Structure	<b>-.427**</b>	.039	.117	.287	.031	.883	.074	.555
Foreign listing	.298	.122	.010	.928	.035	.858	.024	.854
Adjusted R <sup>2</sup>	<b>0.185</b>		<b>0.230</b>		<b>0.103</b>		<b>0.135</b>	

(Table 5 continued)

Variables	Internal accounting and financial control Index				Analysis and risk management Index			
	CAC 40		SBF120 other than CAC40		CAC 40		SBF120 other than CAC40	
	Coef	Sig.	Coef	Sig.	Coef	Sig.	Coef	Sig.
Profitability	-.199	.272	-.096	.409	.122	.479	-.112	.382
Growth opportunities	-.190	.285	.161	.152	.066	.699	-.058	.636
Financial leverage	.128	.462	-.009	.937	<b>-.337*</b>	.051	-.052	.677
Sector of activity	-.096	.642	-.009	.933	<b>-.455**</b>	.028	-.021	.858
IC Framework	-.166	.384	<b>.563***</b>	.000	.205	.269	<b>.383***</b>	.003
Complexity	.071	.699	<b>.181*</b>	.106	-.147	.410	.011	.931
Board Size	-.294	.235	.126	.279	<b>.479**</b>	.050	<b>.216*</b>	.094
Board Independence	-.172	.480	<b>-.299**</b>	.017	.027	.907	-.166	.221
CEO Duality	-.016	.924	<b>-.208*</b>	.069	-.118	.463	<b>-.228*</b>	.071
Ownership Structure	<b>-.529**</b>	.012	.162	.128	.006	.977	-.019	.869
Foreign listing	.198	.294	-.027	.805	<b>.320*</b>	.085	.061	.618
Adjusted R <sup>2</sup>	<b>0.199</b>		<b>0.275</b>		<b>0.256</b>		<b>0.122</b>	

\*\*\*Statistically significant at the 1% level

\*\*Statistically significant at the 5% level

\*Statistically significant at the 10 % level

The results of these regressions also show that the level of complexity of the business significantly affects on the one hand internal governance index and internal control. These results show a significant and negative effect of leverage on disclosure about the analysis and control of risks on the other hand. Also, we find that financial firms disclose significantly more information about these practices in companies in the industrial and service sectors. The finding for financial institutions shows mainly an effect of regulation rather than debt. Indeed banks are subject to other regulatory standards, including those related to the implementation of Basel 2, and therefore the disclosure requirements imposed by the French supervisory authorities are more stringent. It is the same for insurance companies under Solvency 1 and 2. Board chairs of these companies may be influenced by the institutional and regulatory contexts and interests in demonstrating what distinguishes their bank. Finally, our results show significant relations between corporate governance variables (board size, independence, CEO duality), ownership structure and the extent of disclosures about corporate governance, internal control structure and risk management.

## DISCUSSION & CONCLUSION

The purpose of this research was to examine the level of compliance of the French SBF 120 companies with disclosure requirements on governance, internal control, and risk management. At the end of our empirical study, we can draw some conclusions on the main managerial, institutional, and theoretical limits of our present study and suggest future research. The first managerial contribution of our research is to suggest that managers move toward a more integrated approach to report about their governance and risk management practices. The most failures were observed in the section on internal control and risk management. Indeed, half of the SBF 120 companies surveyed used the AMF framework of internal control to inform shareholders on control procedures and risk management compared to 34% for the COSO framework and 16% for other frameworks. The CAC 40 companies mostly preferred to use other standards. Analysis of the results of the characteristics of companies shows that those who opted for the AMF framework are smaller, with smaller boards, and are not listed on the French stock market.

Significant differences were observed in the levels of disclosure among different indices used. The main determinants of disclosure levels are related to the internal control framework used, foreign listing, sector of activity, and business complexity. Although our study confirms the results of previous work relating to foreign listings effects on disclosure, including Wallace et al. (1994), and Khanna et al. (2004), our theoretical contribution lies mainly in the analysis of a company's level of disclosure and relate it to the IC framework used to report the information. The high level of disclosure in the financial sector can be explained by the extent of regulation. Financial companies are subject to regulations or other more specific and rigorous standards as per the Basel 2 example and from management of risks from other national regulators.

Our results show also that corporate governance practices (board size and independence, CEO duality) and the structure of ownership affect the extent of disclosures. Compared to previous work, our results do not confirm those of Coulton and Coulton (2001), and Francoeur et al. (2008) on the size of the board but do for Forker (1992) and Cheng & Jaggi (2000) on the independence of board of directors. Our results validate the separation results of Gul and Leung (2004).

Our findings may also be of interest to regulatory authorities in France. Our study raises awareness of the need to provide more specific guidelines about the items to be disclosed in the board chairperson's report on corporate governance, internal control and risk management practices as well as the responsibilities within the firm. In a globalized environment and at a time when the trend is toward international standardization, this issue remains open for future comparative research in an international setting to identify best practices in this area.

### ACKNOWLEDGMENTS

We acknowledge the financial support from the CPA Canada Accounting and Governance Research Centre at the University of Ottawa.

### AUTHOR BIOGRAPHIES

**Eustache Ebondo Wa Mandzila**, is associate professor of auditing and corporate governance at Kedge Business School, Marseille (France). His research interests include corporate governance, internal controls and audit quality. His work has been published in several French academic journals. He also authored numerous books on auditing and corporate governance. Email: [eustache.ebondo@kedgeb.com](mailto:eustache.ebondo@kedgeb.com)

**Daniel Zéghal**, PhD, FCPA, FCGA, is Professor emeritus at the Telfer School of Management, University of Ottawa. He is interested in a wide range of topics in the areas of production, communication and use of financial and accounting information. His latest work focuses on risk management, corporate governance, international accounting standards and intangible assets. Email: [zeghal@telfer.uottawa.ca](mailto:zeghal@telfer.uottawa.ca)

### REFERENCES

- AFEP/MEDEF. (2008). Le code de gouvernement d'entreprise des sociétés cotées. Retrieved from [www.medef.fr](http://www.medef.fr)
- Ahmed, K., & Courtis, J. (1999). Association between corporate characteristics and disclosure levels in annual reports: A meta-analysis. *British Accounting Review*, 31, 5–61.
- AMF. (2007). Le dispositif de contrôle interne: Cadre de référence. Retrieved from [www.amf-france.org/documents](http://www.amf-france.org/documents)
- Baek H.-Y., Johnson D.-R. et Kim J.-W. (2009), « Managerial Ownership, Corporate Governance, and Voluntary Disclosure », *Journal of Business & Economic Studies*, 2 (15), 44-61, Fall2009.
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review*, 71: 443–465.
- Ben Ali, C., Trabelsi, S., & Gettler Summa, M. (2008). Disclosure quality and ownership structure: Evidence from the French stock market. *Corporate Ownership & Control*, 5(2), 466–480.
- Bhushan, R. (1989). Firm characteristics and analyst following. *Journal of Accounting & Economics*, 11(2), 255–274.
- Bujaki, M., & McConomy, B. J. (2002). Corporate governance: Factors influencing voluntary disclosure by publicly traded Canadian firms. *Canadian Accounting Perspectives*, 2(1), 105–139.
- Bushman, R., Chen, Q., Engel, E., & Smith, A. (2004). Financial Accounting information, organizational complexity and corporate governance systems. *Journal of Accounting and Economics*, 37, 167–201.
- Chen, C. J. P., and Jaggi, B. (2000). "Association between Independent Non-Executive Directors, Family Control and Financial Disclosure in Hong Kong", *Journal of Accounting and Public Policy*, 19 (2), 285-310.
- Coles, J., Daniel, N., & Naveen, L. (2008). Boards: Does one size fit all? *Journal of Financial Economics*, 87, 329–356.
- Coulton, J., James, C. and Taylor, S. (2001), The effect of compensation design and corporate governance on the transparency of CEO compensation disclosures", working paper, University of Technology, Sydney.
- Diamond D., & Verrecchia, R. (1991). Disclosure, liquidity and the cost of equity capital. *Journal of Finance*, 46(4), 1225–1360.
- Eng, L., & Mak, Y. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy*, 4(22), 325–345.
- Faleye, O. (2006). *Classified boards, firm value, and managerial entrenchment*. Boston: Northeastern University, College of Business Administration.
- Forker, J.-J. (1992). Corporate Governance and Disclosure quality. *Accounting and Business Research* 22 (86): 111–124.

- Frankel, R., McNichol, M., & Wilson, G. P. (1995). Discretionary disclosure and external financing. *The Accounting Review*, 1(70), 135–150.
- Gelb D.-S. (2000). « Managerial Ownership and Accounting Disclosures: An Empirical Study », *Review of Quantitative Finance & Accounting*, 2(15), 169-185.
- Gul, F. A., & Leung, S. (2004). Board leadership, outside directors' expertise and voluntary corporate disclosures. *Journal of Accounting and Public Policy*, 23,351–379.
- Gumb, B., & Noël, C. (2009). CEOs' Reports about Internal Control: A Content Analysis. *Accounting in Europe*, 1(6), 81–106
- Hoitash, U., et al. (2009). Corporate governance and internal control over financial reporting: A comparison of regulatory regimes. *Accounting Review*, 3(84), 839–867.
- Hossain, M., Ahmed, K., & Godfrey, J.-M. (2005). Investment opportunity set and voluntary disclosure of prospective information: A simultaneous equations approach. *Journal of Business Finance and Accounting*, 32(5/6), 877–907.
- Hossain M., Tan L.M., Adams M. (1994). Voluntary Disclosure in an Emerging capital Market: Some Empirical Evidence from Companies Listed on the Kuala Lumpur Stock Exchange. *International Journal of Accounting*, 29, 334-351.
- Khanna, T., Palepu, K., & Srinivasan, S. (2004). Disclosure practices of foreign companies interacting with US markets. *Journal of Accounting Research*, 42(2), 475–508.
- Labelle, R. (2002). The statement of corporate governance practices (SCGP): A voluntary disclosure and corporate governance perspective. *Working paper HEC Montréal*, pp. 38.
- Labelle, R., & Schatt, A. (2005). Structure de propriété et communication financière des entreprises françaises. *Finance Contrôle Stratégie*, 8(3), 77–104.
- Lang, M., & Lundholm, R. (1993). Cross-sectional determinants of analysis ratings of corporate disclosures. *Journal of Accounting Research*, 31,246–271.
- LSF. (2003). Loi sur la sécurité financière. Loi no. 2003-706. Retrieved from [www.amf-france.org/documents/general/4746\\_1.pdf](http://www.amf-france.org/documents/general/4746_1.pdf)
- Maëder, R., & Pham, D. (1997). Contrôle interne et gouvernement d'entreprise. *Cahier de recherche* no. 615. Groupe HEC.
- Michailescu, C. (1999). Une étude empirique des déterminants de la qualité de l'information diffusée par les entreprises françaises au cours de la période 1991–1995. *Comptabilité - Contrôle - Audit*, 5(1), 83–108.
- Milne, M. J., & Adler, R. W. (1999). Exploring the reliability of social and environmental disclosures content analysis. *Accounting, Auditing and Accountability Journal*, 12, 237–256.
- Moldeveanu, M., & Bauer, R. M. (2004). Organizational complexity and organizational structuration. *Institute of Management Sciences*, 15, 98–118.
- Nelson, P. (1970). Information and consumer behavior. *Journal of Political Economy*, 78(2), 311–329.
- North, D. (1981). *Structure and change in economy history*. Norton.
- North, D. (Ed.). (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press.
- OECCA. (1977).
- NRE (Loi n° 2001-420 du 15 mai 2001 relative aux Nouvelles Régulations Economiques )  
<http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT00000223114>
- OECD. (2004). OECD Principles of Corporate Governance. Retrieved from <http://www.oecd.org/corporate/principles-corporate-governance.htm>
- Palepu, K. (1986). Predicting takeover targets: A methodological and empirical analysis. *Journal of Accounting and Economics*, 8(1), 3–35.
- Simon H.A. (1996). *The sciences of artificial*. Cambridge, The MIT Press, Third Edition
- Smith, C., & Watts, R. (1992). The investment opportunity set and corporate financing, dividend and compensation policies. *Journal of Financial Economics*, 32, 263–292.
- Wallace, R. S., Naser, K., & Mora, A. (1994). The relationship between the comprehensiveness of corporate annual reports and firm specific characteristics in Spain. *Accounting and Business Research*, 25, 41–53.
- Watson, A., Shrivs, P., & Marston C. (2002). Voluntary disclosure of accounting ratios in the UK. *British Accounting Review*, 34, 141–159.
- Wang, X. (2010). Increasing disclosure requirements and corporate governance decisions: Evidence from chief financial officers in the pre- and post-Sarbanes-Oxley periods. *Journal of Accounting Research*, 48(4), 885–920.
- Zéghal, D. (1984). Firm size and the information content of financial statements. *Journal of Financial and Quantitative Analysis*, 19(3), 299–310.
- Zéghal, D., & Lajili K. (2005). A content analysis of risk management disclosures in Canadian annual reports. *Canadian Journal of Administrative Sciences*, 22(2), 125–142.