TÍTOL DEL TFG:
Advantages and Disadvantages of Voluntary Disclosure of Companies.

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Abstract
My final degree paper will investigate the theoretical and practical aspects about voluntary disclosure. First of all, I will compare mandatory and voluntary disclosures. Giving more focus to voluntary part I will analyse its effects and consequences on company's performance, market position etc. Moreover, this document aims to study motives and limitations that managers face if they want to share more information than the government is requiring. It will also analyse different types of disclosure possibilities. In order not to focus only on theoretical aspects I made an analysis of two companies and the effect of voluntary disclosure on their stock value. In the last part, the advantages and disadvantages will be discussed. Different research show, that despite some negative consequences voluntary disclosure brings more positive effects and try to encourage the management towards that trend.
INDEX

1. INTRODUCTION

2. AGENCY PROBLEM
   2.1. Information asymmetry
   2.2. Lemon problem
   2.3. Cost of capital

3. COMPULSORY AND VOLUNTARY DISCLOSURE
   3.1. Mandatory disclosure
   3.2. Voluntary disclosure and its types
       3.2.1. Business data
       3.2.2. Management’s analysis of business data
       3.2.3. Forward-looking information
       3.2.4. Information about management and shareholders
       3.2.5. Background about the company
       3.2.6. Information about intangible assets

4. FACTORS AFFECTING MANAGEMENT DECISIONS ABOUT VOLUNTARY DISCLOSURE
   4.1. Favourable factors towards voluntary disclosure
       4.1.1. Capital market transactions hypothesis
       4.1.2. Corporate control contest hypothesis
       4.1.3. Stock compensation hypothesis
       4.1.4. Litigation Cost Hypothesis
       4.1.5. Management Talent Signalling Hypothesis
       4.1.6. Limitations of mandatory disclosures
   4.2. Unfavourable factors driving managers away from voluntary disclosure
       4.2.1. Disclosure precedent
       4.2.2. Litigation costs
       4.2.3. Proprietary Cost Hypothesis
       4.2.4. Agency costs
       4.2.5. Political costs
   4.3. Conclusion
5. CONSEQUENCES OF VOLUNTARY DISCLOSURE – PRACTICAL CASE

5.1. Facts about voluntary disclosure
   5.1.1. Conclusion

5.2. Empirical examples of effects of voluntary disclosure
   5.2.1. Gowex case
   5.2.2. British Petroleum (BP) case
   5.2.3. Conclusion

6. FINAL CONCLUSION

7. APPENDIX

1. INTRODUCTION

   The trend towards voluntary disclosure is still not so popular. Managers hesitate either it is better for the company's interest to publish more information than is required in the mandatory statements. Many times they rather play safe, and only share what they have been
asked for. Some of companies try to hide negative information and when the truth comes out the negative effects are even stronger, than if they decided to disclose it on their own.

Voluntary disclosure is mainly caused by agency problem. Usually, shareholders are no longer actively involved in company's decisions process. In order to make sure that the company will be profitable they empower the management to do so. At that point the information asymmetry problem arises... Managers are better informed than stakeholders. That gap can also lead to lemon problem, where trusted and highly valued company suddenly looses its value. Another important aspect is cost of capital. The less the market knows about the company, the harder it will become for management to obtain external financing.

Regarding the information shared, we can point out six different types of voluntary disclosure: business data, management’s analysis of business data, forward-looking information, information about management and shareholders, background about the company and information about intangible assets. These following types can get usually divided into four subcategories regarding sales, products, operations and financial performance. This paper focuses also on motivations and limitations regarding voluntary disclosure. There are different factors that convince managers into profitability of sharing more information. On the other hand we need to face some factors blocking voluntary disclosure tendency.

All of the theoretical part finds its reflection in section five, which concentrates on practical aspects and cases. Firstly, I point out managers perception about voluntary disclosure based on Graham's survey. Later on, I move into analysing stock performance of Gowex and British Petroleum, affected by the level of voluntary disclosure.

The main objective of this paper is to analyse whether voluntary disclosure gives more advantages or disadvantages to companies.

2. AGENCY PROBLEM

In this chapter I will focus on agency problem and discuss three main factors that lead to it. Agency problem arises when shareholders invest in a company but they are not responsible for business decisions. As they are not actively involved in a business they
empower the management to act in their name, trusting them that taken decisions will be the best ones. Information asymmetry, lemon problem and high cost of capital issues can be easily reduced if the management decides to voluntarily disclosure more information than is required by the government. In this chapter I will analyse its consequences and outcomes. (Healy & Palepu, 2001)

2.1. Information asymmetry

For many years we have been dealing with imbalances within the organization. The information held inside the company is not the same as the information available to its stakeholders. We need to consider the agency problem... information asymmetry. This concept is quite simple. One party has more information (managers) than the other one (stakeholders). (Healy & Palepu, 2001). Why does it appear? Wouldn't it be better if all the gathered information would be publicly available to everyone? Wouldn't it make the stakeholders trust the management more, and be better prepared for their future actions. What are its outcomes and consequences? How could the information asymmetry get reduced?

The answer to those questions is not that simple and each of them has its advantages and disadvantages. First of all, the information asymmetry is what gives us the power in the market. If one knows more than the other it is more probable that he will make a better deal. It is basically, the inequality between the seller and the buyer. We could transform it into the capital markets, where the buyer would be the investor and the seller is the company in which he is planning to invest in. Obviously, the management of the company knows, or at least is supposed to know, every little detail regarding the companies condition, future plans and benefits. This type of inside information is not available to the investor. The only formal and legal information he gets is the one from public statements, the information required by the government and the information the company decides to share publicly. (Bagherpour & ArabSalehi, 2008; Petrova et. al. 2012)

Does it make him a looser? Not necessary... Although, let's be honest, he is starting from the loosing position it does not necessarily imply that he will lose.

First of all, the inside information held by the company, does not have to have a high value. As long as it does not bring anything surprising this information is basically what the company has been collecting in order to make correctly their financial statements etc. Therefore, weather the investor knows it or not, it does not really affect his perception of
viewing the investment. Secondly, the companies value might be underestimated. It can be caused by many different factors. The company might not know its real value, be in an urgent need of liquidity, similar company has failed or is in trouble, it is a new company or they are in the innovative filed and current market did not learn yet how to recognize its value. As another advantage of the investor, I would point out the uncertainty of the markets and that nobody can predict the future. Therefore, not him nor the company can be sure about the future results. The discussed three factors can result positively for the investor and make him earn lots of money, sometimes even way more than he has expected. (Healy & Palepu, 1993; Bagherpour & ArabSalehi, 2008). But what happens if because of the lack of information and badly recognized value he ends up loosing his money? Then, he would face a “lemon problem” which I will discuss later on in my thesis.

What would happen if all of the information would be publicly available to everyone? Well for sure it would make the investor happier. As he would know all of the details he could clearly see the value of the company and decide whether it is fair or not. By analysing the information he could calculate the expected return on investment and the risk associated with it (Petrova et. al. 2012). He still wouldn't be capable of knowing the future in 100 % but it would be easier for him to predict it and he would feel safer. What about the company? Well, they would really need to work hard, and carefully analyse each decision. There would be nothing to hide, each move would be registered and known publicly. The market value would be fair and real. It would be like playing poker with open cards. The only risk of the investor would be to decide which company will grow faster and when should he back off in order to do it before the price of shares would start to decrease.

2.2. Lemon problem

Information asymmetry leads to so called by George Akerlof, the lemon problem. “If consumers cannot tell the quality of a product and are willing to pay only an average price for it, then this price is more attractive for sellers who have bad products than to seller who have good products (...) This lemons idea is also important for corporate finance: if investors cannot observe the value of firms before they buy them then they would be willing to pay only an average price for the equity of firms.” (Spiegel 2013).

Although, with the broader information the investor would allocate his financial resources better, he is not capable of doing so because of the lack of the information. One of
the examples to prove Akerlof's thesis would be Quindell case. “Quindell Plc is a provider of innovative and sector leading expertise in Insurance Technology, Usage Based Insurance (UBI), and Connected Car Telematics.” (http://www.quindell.com/about-quindell/) The company seemed perfect to many of the investors. After analysing their mandatory, financial statements nothing has looked suspicious. On the 19th of February 2014 its price has reached its peak becoming 660 pounds per share making the investors happier than they have ever expected to be. (https://uk.finance.yahoo.com/echarts?s=QPP.L#symbol=QPP.L;range=2y). Unfortunately, it did not last long... The value of the company was not stable and was fluctuating a lot. On the 21st of April the market value started to drop... It was not just a little decrease. The price per share has decreased by over 200 pounds. The price at a closing date on 21st of April 2014 was 585 pounds and just a day after, on 22nd of April 2014 356,25 pounds. That tendency did not stop and over a year after (02/06/2015) Quintell's price per share is 128,38 pounds. (https://uk.finance.yahoo.com/echarts?s=QPP.L#symbol=QPP.L;range=2y). What has happened to the company that its value suddenly dropped? Could it be predicted by the investors? Did they have any signs signalling that it would be better to back off? Unfortunately, most of the indicators were ignored. The company seemed as a perfect money making machine that almost nobody, even thought of investigating its financial statements, was suspicious about. It is assumed that Gotham City Research has had a strong impact over Quindell's shares' value. On the 22nd of April 2014 an article about Quindell's has been published on http://gothamcityresearch.com. The unknown author has analysed mandatory statements of this firm and came to surprising conclusion... Most of the accounts has been falsified. First of all, between 42% to 80% of Quindell's profits were doubtful because of inability to confirm its source and due to the differences with the other party (if the source was available). Moreover, although the exact number is not fully clear, from 26% to 43% of company's revenues in 2010 came from subsidiary company owned by CEO Robert Terry (Clickus4.com). In 2011 over 40% of company's revenues came from an undisclosed related party. Another important inaccuracy in Quindell's statements would include one of its subsidiary companies, Himex & Ingenie, which in 2013 was responsible for generating over 60% of the revenues but at the same time had deficient balance sheet accounts. Moreover in years 2011-2013 accounts receivable were between 86%-231% of Quindel's revenues, while deferred revenue only between 1%-2% of the revenues. The unknown researcher has found many other facts which should make investors doubt
about company's real value. At the end of his research he valued the company at not more than 3 pounds per share. ([http://gothamcityresearch.com/2014/04/22/quindell-plc-a-country-club-built-on-quicksand/](http://gothamcityresearch.com/2014/04/22/quindell-plc-a-country-club-built-on-quicksand/))

How can the lemon problem be solved? From investor's perspective there are two options. One of the possibilities is to try to gather as much as possible of useful information which would allow him to more clearly see the company's real value. Another one is to hire an external expert who will analyse the case objectively. This happened in previously mentioned example of Quindell, an external investigation has been performed bringing the shares price down closer to its real market value. There is also another possibility which relies in hands of the company which has to compete with “lemons”... reduce the information asymmetry. If honest companies will provide its investors with more information, it is more than probable that the investors will discover their true value and therefore, will be willing to pay more for the shares, will become capable of seeing the true quality and of recognizing the lemons. (Akerlof 1970).

2.3. Cost of capital

Information asymmetry has its effect also on the cost of capital. Cost of capital is related to the opportunity cost of investing in one firm rather than in another one. This is the return rate, that could be earned by the investor, if he has decided to allocate his financial resources elsewhere, considering that the risk of both investments would the same. Simplifying, cost of capital is the rate of return needed to convince the investor to invest in a specific investment. (Kolton et. al. 2001; Petrova et. al. 2012) How does the information asymmetry affects the cost of capital? The higher the information asymmetry the higher the cost of capital (Petrova et. al. 2012). This can be easily proven... Imagine you want to buy a house... As you have more information provided you are more likely to purchase it. Usually, you are even willing to pay more than for the house about which you do not know as much. They can be exactly the same, but somehow you trust the one with more information more. Well, it works really similar in the capital markets. Whenever the investor is about to make an investment he wants to know as much as possible, to make sure that his decision is right. Less information leads to higher information asymmetry, the investment becomes more risky and therefore the cost of capital increases. The opportunity cost of making that investment becomes higher and he prefers to allocate his money elsewhere. How can the company reach
the investor? They should decrease the information gap which would lead to decrease in the capital cost. If the cost of capital is lower, investors are more likely to invest in that project. Therefore, it is better for companies if they provide its investors with more information, so that the cost of capital is lower (Kolton et. al. 2001; Petrova et. al. 2012). Is the information required by GAAP and IFRS etc. enough to reduce information asymmetry and therefore, the cost of capital? Should companies consider other options of decreasing that gap?

Before I move on, into analysing the answer to that question let's try to answer another, more simple problem... Why, and what for, do companies collect accounting information? The main reason is to be capable of making right decisions, especially decisions regarding the business and its financial future. “Information produced by the accounting information systems are important for the effective management of business activities, and according to the type of users, its information requests and needs vary.” Stanković, Alexandra, Miloš Mitrić, and Snežana Knežević. 'Business and Financial Decisions Based on Information Provided by Accounting Information Systems'. Advanced Research in Scientific Areas (2012): 660-663.

There are two types of accounting information: compulsory and voluntary. As the company does not control what has to be included in its compulsory statements, it has the whole freedom regarding the voluntary part. Next chapter of my thesis will focus on both types of information. I will analyse pros and cons of each of them, its effects on the company, and also what makes the companies publish more than the government requires.

3. COMPULSORY AND VOLUNTARY DISCLOSURE

To have a clear idea about what will be analysed further on in my thesis I would like to start this chapter with basic definitions of both types of disclosures but before we move on to that let's answer a more simple issue... What exactly do we mean by disclosure?

Owusu-Ansah (1998) explains disclosure as “the communication of economic information, whether financial or non-financial, quantitative or otherwise concerning a company’s financial position and performance” (Owusu-Ansah, Stephen 'The Impact Of Corporate Attributes On the Extent Of Mandatory Disclosure And Reporting By Listed Companies in Zimbabwe'. The International Journal of Accounting 33.5 (1998): 605-631). This statement leads us to a pretty clear idea of how it can get divided into two parts
3.1. Mandatory disclosure

As I couldn't find one definition that would fully describe compulsory disclosure I have decided to use various explanations. First of all, “mandatory disclosure consists of information disclosed in order to comply with the requirements of laws and regulations.” Shehata, Nermeen Fathy. 'Theories And Determinants Of Voluntary Disclosure'. AFR 3.1 (2013). This statement can get more developed by “Compulsory information disclosure means relevant laws and rules, such as Company Law, Securities Law, Accounting Rules, and regulatory agencies’ regulations, clearly regulate that listed companies must actualize information disclosure.” Tian, Yu, and Jingliang Chen. 'Concept Of Voluntary Information Disclosure And A Review Of Relevant Studies'. International Journal of Economics and Finance 1.2 (2009). According to these statements mandatory disclosure is what the government has required and it is restricted by certain rules and laws. Companies must fulfil various requirements. It is the same for all of the companies and differs slightly depending on the country. If the published information is so official and publicly required why isn't it enough? Answer to this question can be found in The Trend Toward Voluntary Corporate Disclosures article. Schuster and O'Connell (2006) state that mandatory information can be highly manipulated especially in case of managerial profits. Moreover, the limited amount of data published is not enough to predict future performance of the company. It is mainly because it does not include all of the factors affecting company's future. Mandatory disclosure focuses mostly on numerical data not taking into account non-financial performance and intangible assets of the company as for example, human capital, customer relations, innovation, research and development (R&D), and corporate reputation. All of these factors have a strong impact on company's value especially, if we look at the long-term performance. Compulsory disclosure also avoids analysis of investment risk and long-term effects of capital investments (Schuster & O'Connell, 2006). When talking about mandatory disclosure it must be mentioned that it provides a core, formal and official information to the public. Although the additional information can be found in voluntary statements of the company and shareholders usually can get the inside information from the management... annual reports are usually what matters in analysing company's value (Shehata 2013). If annual reports (mandatory information) are usually the only source of people's perception of the company is
it worth to show more than required?

The last issue about mandatory disclosure that I would like to point out is the fact that it does not provide a reasonable forecast about firm's future. Jacobson states that annual reports, although official, are used more as a form of advertising, improvement in public relations and company's image but, they do not serve much in case of decision-making process (Shehata 2013).

Why does the government requires only a part of companies financial information? Why don't they ask for more in order to make sure that the published information is reliable? Compulsory information leaves some gaps leading to information asymmetry... and this is where the need for voluntary information disclosure arises.

3.2. Voluntary disclosure and its types

In the most simple way we can define voluntary disclosure as “free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports.” (Meek et al. (1995: 555).

Again, as in the case of mandatory disclosure, I was not able to find one definition that would include all of the aspects, therefore, I decided to analyse different studies and put acquired information together.

One of main goals of voluntary disclosure is to better communicate company's value to its potential investors. As more information is available, investors can easier recognize the value and predict future performance lowering the risk of the investment. It also should increase their willingness to invest especially, if they see the company as a good business opportunity. Voluntary disclosure aims to improve the fluidity of capital market and push towards more efficient allocation of capital, bringing the average cost down. High level of voluntary disclosure will result in more complex and positive communication with its stakeholders. It should have a positive effect on companies' images (especially in case of good news), its relations with investors and other stakeholders. As the extension of compulsory information, it provides public with more complex view and perception of company's future performance (Tian & Chen, 2009, Kolton et. al. 2001)

Therefore, voluntary disclosure, in contrast to mandatory disclosure, relies completely in managements hands. They are the ones who decide what, when and how much to publish. They have a full control over what will be known to the public and have to decide what
would be the best option for their firm.

Types of voluntary disclosure

Regarding to what the company has decided to reveal we can classify that information into one of the six categories: Business data, Management’s analysis of business data, Forward-looking information, Information about management and shareholders, Background about the company and Information about intangible assets. It is also believed that voluntary disclosure of this types of information should have positive effect on many aspects of company's activity as for example: market value, reputation, cost of capital etc. (Kolton et. al. 2001). I would like to describe each of these six types and investigate its effects on the company's performance.

3.3.1. Business data

Voluntary disclosure of business data usually relates to publishing internal operating data and performance measurements which are used by the management to drive the business. It can be classified into few subcategories depending on what the managers decide to publish. (Kolton et. al. 2001).

- Sales
Voluntary disclosure of this information could include market share divided by regions, monthly amount of orders grouped by product categories and strategic business units, any additional information about sales and marketing teams usually also presenting the amount of professionals, diversification in sales strategies depended on regions etc. (Kolton et. al. 2001).

- Products
Depending on the firm's activity and product's type different information will be publicly shared. Managers can decide to inform public about new product lines or extensions of the old ones, changes in volume regarding business groups or geographical locations, eventual agreements or product alliances, relevant information about product present users and expectations regarding the future. (Kolton et. al. 2001).

- Operations
In company's interest should be also sharing the information about firm's operations. This form of disclosure could include informing stakeholders about plant's capacities grouped by products and compared with previous years and expected schedule for upcoming year,
employees productivity and sales per worker before interest and taxes, reports about expansion to new geographical locations using joint ventures, details about labour contracts and other precise information about form of hiring employees etc. (Kolton et. al. 2001).

- **Financial Performance**

To improve the communication level and to improve relation with investors company should share voluntary information about its financial performance. This information would be usually disclosed in a form of graphs representing earnings per share and company's capability of keeping that performance, return on invested capital, comparison of other forms of controlling financial performance using benchmarking. (Kolton et. al. 2001).

3.3.2. *Management's analysis of business data*

If the managers decide to disclose their private analysis they usually should focus on explaining the circumstances for changes in the operating and performance related data also focusing on the identification of past effects and trends. Similarly, it consists of four subcategories. (Kolton et. al. 2001).

- **Sales**

Regarding sales disclosure of management's analysis of business data, the information that would be valuable for stakeholders would be analysis of marketplace according to regions and countries, volume and price, discussion regarding product's position and its impact on brand name and sales, also the possible effects of market conditions on sales volume and prices. (Kolton et. al. 2001).

- **Products**

Also detailed information about company's products might bring positive effect on stakeholders perception and therefore, be beneficial for the firm. In disclosing the information, management should have on mind sharing the goals regarding the products revenues, summary of some questionnaires and other market research tools including clients opinions and concerns about the products, domestic market share compared with competitors. (Kolton et. al. 2001).

- **Operations**

As management is supposed to analyse every aspect of companies operations it would be relevant to communicate detailed information about the possibilities of strikes effects, additional information about influence of technology on research and development, some past
data about raw materials its impact on product prices and an analyse of future expected path. (Kolton et. al. 2001).

- **Financial Performance**

Internal managements information about financial performance of the company would be useful to share with the others if it highlights accomplishments and success in the past years, informs about earnings, partnerships, includes benchmarking analysis. It would be beneficial to share financial indicators as: return on equity, total shareholders return, earnings per share, earnings and revenues grow. (Kolton et. al. 2001).

3.3.3. *Forward-looking information*

Regarding forward-looking information managers usually collect data about future possible opportunities and upcoming risks, their plans involving success factors and many comparisons with past performances, its affects on the future and how the past future plans have been well predicted. (Kolton et. al. 2001).

- **Sales**

As managers already should have this information collected it would be useful for them to share forecasts including their expectations about units sold in next year separated by locations, analysis of growth opportunities and threats etc. (Kolton et. al. 2001).

- **Products**

In case of using patented products it would be beneficial to mention future perspectives for products which patents are about to expire and possible damage in revenues. Also favourable would be include expansion prospectives for a brand or product with the respect to specific locations. (Kolton et. al. 2001).

- **Operations**

Stakeholders would be better off knowing managements future targets in revenues, net income, gross margins and also their expectations regarding decrease in the ratio of expenses to revenues. It would be useful for them to be informed about projected cash flows, company's reports about goals and milestones to be achieved. Management should share information about any plans regarding company's future operations which could be analysis of potential new locations or possible new markets. (Kolton et. al. 2001).

- **Financial Performance**

Regarding financial performance stakeholders should be informed about expected earnings
and free cash flows. It would be good to share reasonable speculations expanding to next five years of activity with different possible variants of EPS, ROE, ROA. (Kolton et. al. 2001).

3.3.4. Information about management and shareholders

Detailed data about firm's directors, management, biggest shareholders and relationships within the company could make the stakeholders closer to the business and therefore be beneficial for its interest. Despite the fact that this is a useful data most of this information is already required in mandatory statements. Managers can make a difference adding additional information which could be for example: detailed description of executive management succession plans. (Kolton et. al. 2001).

3.3.5. Background about the company

Making stakeholders know more about firm's activity would bring positive effects on company's activity. Managers should share broad objectives, mission and vision statements, strategies, its influence on the industry etc. (Kolton et. al. 2001).

- **Sales**

Regarding sales data management should focus on disclosing information about any legislation form needed affecting the sales level of the products. (Kolton et. al. 2001).

- **Products**

Detailed description of the product lines and products itself with the emphasis on the usage possibilities should encourage clients into increased use and push investors towards investing. That disclosure should also include trends in the industry and possible impacts on the firm's current product lines. It would be beneficial to provide more information about products, brands, and trademarks. (Kolton et. al. 2001).

- **Operations**

Stakeholders might value any additional information about number of employees, factories and products manufactured. Managers should consider informing about ways to control operation expenses and strategy for research and development, and also long-term performance objectives. (Kolton et. al. 2001).

- **Financial Performance**

In this subcategory it would be good to inform stakeholders about firm's strategy for acquisition, and any necessary information about directors or management past financial
performances. (Kolton et. al. 2001).

3.3.6. Information about intangible assets

Management should put high effort into explaining intangible assets of the company, especially because of the fact that accounting standards usually do not recognize them. Mandatory information does not take into account intangible aspects, and therefore the value of the company is usually lower. Financial statements concentrate strictly on numerical data that can be easily valued. “Disclosure of information about unrecognized intangible assets such as research and development, human resources, customer relations, innovations, and others that are critical to the success of a business would be especially helpful to investors in making investment decisions.” (Improving business reporting). That voluntary disclosure would be useful them because of being capable of recognizing the true value of the company and lowering the risk about mistaken future expectation. (Kolton et. al. 2001).

4. FACTORS AFFECTING MANAGEMENT DECISIONS ABOUT VOLUNTARY DISCLOSURE

After having a clear view of both types of disclosure I would like to move on into analysing the advantages and disadvantages of voluntary disclosure of the companies. To do so I will start with the factors which push the managers into revealing more information than required by the government but also the factors that stop them from doing so.

4.1. Favourable factors towards voluntary disclosure

There are six different factors that encourage managers to voluntary disclosure. Those factors are: capital market transactions, corporate control contests, stock compensation, litigation, proprietary costs, management talent signalling and limitations of mandatory disclosures. (Healy and Palepu 2001; Graham 2005).

4.1.1 Capital market transactions hypothesis

The perception of how the company is seen by the investors has impact on disclosing decisions taken by the management. It has a stronger impact in case when the company is in need of external source of financing. Providing only mandatory information does not decrease
the information asymmetry. As mentioned before in my thesis, that gap leads to higher cost of capital and higher risk associated with that investment. While facing the need of acquiring external capital at a lower cost possible that inequality in information should be reduced. Regarding that, the managers who are planning to make capital market transactions will be willing to voluntarily disclose internal information of the company. (Healy and Palepu 2001; (Majluf, 1984; (Bagherpour & ArabSalehi, 2008).

4.1.2. Corporate control contest hypothesis

The main tool to control the managers by the boards of directors and investors is the stock performance of the company – price of shares. Managers use voluntary disclosure in order to protect the company from undervaluation and in case of poor performance, they prefer to communicate bad news step by step by themselves in order to avoid a sharp drop in stock prices. They are willing to better communicate with stakeholders because of the risk of job loss. Managers use voluntary disclosure as a tool to explain poor stock and earnings performance. (Healy and Palepu 2001). Higher level of voluntary disclosure would drive to increased analyst coverage. More information available will lead to higher interest from analyst as the cost of acquiring information has deceased. It would result in higher interest in analysis performed about the company and therefore, reflect its fair value in the market. (Graham, 2005)

4.1.3. Stock compensation hypothesis

In order to motivate the management into better performance several rewards are used. One of the most common method is stock compensation. This type of premium positively influences managers decisions regarding voluntary disclosure mainly because of two reasons. (Healy and Palepu 2001).

First, as they are also “owners” of the company and they are interested in trading their shares they will try to increase its stock value, and moreover to correct it in case of underestimation. Therefore, they would be willing to share internal information and to voluntarily disclose private information. (Healy and Palepu 2001).

The second reason to increase the level of voluntary disclosure is the reduction of contracting costs which are related to stock compensation for new employees. In this case managers would act in favour of the existing shareholders. Increased level of voluntary
disclosure would therefore, reduce contracting cost connected to stock compensation for new employees (Healy and Palepu 2001).

A study carried out by Aboody and Kasznik (2000) points out that during the stock option award period managers tend to postpone disclosure of positive news and enhance bad news in order to increase future stock-based compensation. (Aboody and Kasznik, 2000).

4.1.4. Litigation Cost Hypothesis

Managers concern about shareholders litigation can affect their disclosure decisions. First, the firm might decide to increase the level of voluntary disclosure due to inadequate or untimely disclosures. On the other hand, the fear of litigation might decrease the willingness to disclosure, especially of the forward-looking information, (Healy and Palepu 2001), I will focus on this negative aspect further on in my thesis. In his work, Skinner (1994) investigates the effect of pre-disclosed bad information and cost of litigation. He realises that in case of absence of litigation, managers prefer to keep the balance in disclosing good and bad news. Also he states that pre-disclosure of poor performance of the company reduces the probability of litigation. It is mainly because the drop in share prices is distributed over time and there is no sudden drop in stock value of the company which is easier to recover once good news come. (Skinner 1994).

4.1.5. Management Talent Signalling Hypothesis

Managers with the capability of accurate earnings forecasting will be willing to voluntarily disclosure their personal information. It is mainly because company's market values depends on investors' perception of management skills of recognizing and responding to future environmental changes. If the forecast performed by the manager is adequate it is more than probable that the market value of the company will increase. (Healy and Palepu 2001)

4.1.6. Limitations of mandatory disclosures

As mentioned before, compulsory information is what the government requires. It is a basic and limited form of communicating company's performance. Many people complain that mandatory data published it hard to understand and includes only financial aspects of the firm forgetting about non-financial indicators and intangible assets. Also, mandatory
information is published every three months causing lack of timeliness and a need for more frequent channels of communication. Those concerns and inequalities push towards voluntary disclosure, which would reduce the information gap arising from providing stakeholders only with compulsory form of knowledge. (Graham, 2005)

4.2. Unfavourable factors driving managers away from voluntary disclosure

Voluntary disclosure also entails some negative consequences. It makes the management double think the decision whether it is worth for the company's interest to disclose more than the government requires in mandatory statements. In this chapter I will analyse five main aspects pulling away from voluntary disclosure.

4.2.1. Disclosure precedent

Once the company decides to voluntarily disclose its internal information it is really hard to back off. Managers are afraid that if they decide towards voluntary disclosure in the future they will be pushed to continue doing so. It would not be so bad if the additional information would be always good. In case of poor performance or bad times management probably would rather just keep the information for themselves or simply would not be too proud of sharing it. Although, it is usually better for the company's interest if the bad news are coming out directly from the management I believe that many times the firm would rather hide this data or at least postpone them in time. This practice would have higher use in case when there is a high probability that poor performance is just temporary and the toxic news can be easily hidden or, shared latter on together with good news.

Voluntary disclosure practise also entails an increase in people's expectations regarding future information, people would expect more and more internal data to be shared. (Graham 2005).

4.2.2. Litigation costs

As already mentioned in part 4.1.4. litigation hypothesis has two possible outcomes on voluntary disclosure. One, affects it positively, driving managers towards increased voluntary disclosure. The other one has negative impact, preventing the management of sharing too much. That aspect will be discussed in this section of my thesis. Managers are pushed away from voluntary disclosure mainly because of the lack of willingness to share their private
forward-looking speculations. It would have stronger impact in case when the manager could be penalised for bad speculations. (Graham 2005; Healy and Palepu 2001). In case of the fear of litigation managers prefer not to share that much in order to avoid unnecessary conflicts. If the stakeholders do not know as much about the company they will be less involved and therefore, the decision-making process would be faster. The tactic to step away from voluntary disclosure would also decrease the possible costs of litigation. (Graham, 2005; Haley and Palepu, 2001).

4.2.3. Proprietary Cost Hypothesis

One of the reasons why firms are not willing to voluntarily disclosure more information that necessary is the threat of loosing their competitive advantage. Even though, the additional information would decrease the cost of capital, many times the managers prefer to keep the internal information within the company and pay a premium for getting external financing. Proprietary cost hypothesis can negatively affect voluntary disclosure of information because of managements fear of revealing too much and loosing their competitive position in the market. (Healy and Palepu 2001).

4.2.4. Agency costs

Managers decide to avoid unnecessary attention from the stakeholders. Limiting voluntary disclosure of unimportant information would safe many not desariable questions and comments leading to faster decision making process and saving agency costs. (Graham, 2005)

4.2.5. Political costs

For own comfort managers would prefer not to disclosure that much in order to limit the amount of information that can be used against them. The level of impact of political costs depends on the size of the company. Big companies with a high level of profits are more likely to decrease the level of voluntary disclosure. It is mainly to avoid being involved in any political attacks. (Graham, 2005; Shehata, 2013).

4.3. Conclusion

As we can see there are many different factors affecting managers perception and incentive regarding voluntary disclosure. One of them push towards sharing all the internal information., other put the red light in managers heads and block their willingness to
disclosure private data. Voluntary disclosure has its advantages and disadvantages and the managers' role it to find a perfect equilibrium, giving the best option for the company.

5. CONSEQUENCES OF VOLUNTARY DISCLOSURE – PRACTICAL CASE

In this chapter of my thesis I would like to focus on the practical aspects and consequences of voluntary disclosure. First, I will discuss the facts about voluntary disclosure from managements point of view. Later on, I will move on into analysing two different cases of how disclosure affects companies' market performance. The first case will be related to stock price increase related to higher level of good information available. Another one will focus on stock price decrease caused by the disclosure of bad news. Each of these parts will be divided into two parts. One analysing effects of disclosure if it has been voluntarily done by the company. Another one will examine the opposite scenario... the additional information comes from an external source.

5.1. Facts about voluntary disclosure

Voluntary disclosure relies mainly in managers hands. In this section I would like to introduce their opinion and experience about how it affects the company. To do so, I will analyse a survey performed by Graham (2005). In his article we can find the answers of 401 financial executives to 12 questions. In this part of my thesis I have just selected the questions that highly relate to voluntary disclosure and show its consequences from managements perception.

The first question of the survey that demonstrates motives towards voluntary disclosure was:

<table>
<thead>
<tr>
<th>1. Do these statements describe your company's motives for voluntarily communicating financial information?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntarily communicating financial information...</td>
</tr>
<tr>
<td>reduces our cost of capital</td>
</tr>
<tr>
<td>increases our P/E ratio</td>
</tr>
<tr>
<td>corrects an under-valued stock price</td>
</tr>
</tbody>
</table>
increases the predictability of our company's future prospects  
increases the overall liquidity of our stock  
reveals to outsiders the skill level of our managers  
attracts more financial analysts to follow our stock  
promotes a reputation for transparent/accurate reporting  
reduces the "information risk" that investors assign to our stock  
reduces the risk premium employees demand for holding stock granted as compensation  
provides important information to investors that is not included in mandatory financial disclosures

Other motives that encourage voluntary disclosure:

Source: https://www.faculty.fuqua.duke.edu/~jgraham/finrep/survey.htm

As we can see the respondents had to analyse various options (with a possibility of adding their own response) and assign points depending on the level of agreement or disagreement.

92.1% of the respondents strongly agree that “Voluntarily communicating information promotes a reputation for transparent/accurate reporting” and only 2% is against that statement. This is the most valued answer. On average it got 1.39 points meaning that most of financial executives find this motive the most useful towards voluntary disclosure. The second and the third most scored answers were the statements about reduction of information risk that investors assign to firm's stock and the fact that voluntary disclosure provides important information to investors that is not taken into account in compulsory part. These answers make us realize that companies' see the positive effect of voluntary disclosure which are: reducing the investment risk and reducing the information asymmetry. 81.9% and 72.1% of respondents have strongly agreed with that statements getting the average rating of 1.03 and 0.86 respectively.

Surprisingly, not so many financial executives have recognized the decrease of cost of capital as the effect of voluntary disclosure. That aspect got only 39.3% of strongly agree and 22.0% of strongly disagree responds with the final average ratio of 0.17 meaning that on average voluntarily communicating information has close to neutral effect on cost of capital decrease. Complete results of the survey can be found in Appendix, table 1.

Second question of the survey meant to identify the most common issues that hold the
management from disclosing too much. Negative consequences of voluntary disclosure have been listed leaving the option of adding own experience.

2. Limiting voluntary communication of financial information helps...

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>0</td>
</tr>
<tr>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

- avoid giving away "company secrets" or otherwise harming our competitive position
- avoid attracting unwanted scrutiny by regulators
- avoid attracting unwanted scrutiny by stockholders and bondholders
- avoid potential follow-up questions about unimportant items
- avoid possible lawsuits if future results don't match forward-looking disclosures
- avoid setting a disclosure precedent that may be difficult to continue

Other motives that affect your desire to limit voluntary disclosure:

Source: https://www.faculty.fuqua.duke.edu/~jgraham/finrep/survey.htm

Regarding the answers, the most common issue that causes the desire to limit voluntary disclosure is the fear of difficulty to continue with disclosures precedent in the future. In this case 69.6% of respondents strongly agree and 14.7% strongly disagree resulting in the average final score of 0.74. It means that in general firms decide not to disclosure because they find it hard to stop in the future. Another aspect that highly limits the tendency towards voluntary disclosure is the fear of loosing competitive advantage. 58.8% of participants strongly agree with that statement and 24.8% strongly disagrees, giving the final average score of 0.49. Analysing this answer we can conclude that sharing internal information might have a negative effect on position in the market and decrease the level of competitiveness.

Respondents answers also suggest that voluntary disclosure does not attract unwanted scrutiny by regulators or unwanted scrutiny by stockholders and bondholders. Both of this answers got a negative average score of -0.52 and -0.56 respectively. In both cases over 54% of respondents have strongly disagree that these two issues push them towards limiting voluntary disclosure. Complete results of the survey can be found in Appendix 1, table 2.
Two next following questions focused on the release of good and bad news and what the company is more willing to share.

2a. Based on your company's experience, is good news or bad news released to the public faster?

<table>
<thead>
<tr>
<th>Bad News Faster</th>
<th>No difference</th>
<th>Good News Faster</th>
</tr>
</thead>
</table>

2b. Do the following statements describe your company's motives related to the timing of voluntary disclosures?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>1</td>
</tr>
<tr>
<td>-1</td>
<td>2</td>
</tr>
</tbody>
</table>

- Disclosing bad news faster enhances our reputation for transparent and accurate reporting
- Disclosing bad news faster reduces our risk of potential lawsuits
- Good news is released faster because bad news takes longer to analyze and interpret
- Good news is released faster because we try to package bad news with other disclosures, which can result in a coordination delay

Other timing factors:
Source: https://www.faculty.fuqua.duke.edu/~jgraham/finrep/finrpt_2.htm

52.9% of firms are indifferent between the timing of disclosing good or bad information. 26.6% is more likely to disclose bad news faster and 20.5% puts the priority on good news. Following that questions Graham decided to examine the motives related to the timing of voluntary disclosure. 76.8% of respondents strongly agreed that “Disclosing bad news faster enhances our reputation for transparent and accurate reporting” and “Disclosing bad news faster reduces our risk of potential lawsuits”. Regarding the average rating the score slightly differs, respectively is 0.93 and 0.91 points. The difference arises form the degree of strongly disagree which has been 3.7% and 8.4% respectively. Surprisingly, only 35.5% of the participants said strongly agree in speeding up voluntary disclosure of good news in order to cover bad news. In this case the level of strongly disagree was very similar, 37.1% leading to average rating of -0.05 suggesting that in general management is very close
to neutral in timing the voluntary disclosure of good news in order to cover up bad news. Complete results of the survey can be found in Appendix, table 3.

The last question on which I would like to focus collects data about three most important performance measures.

<table>
<thead>
<tr>
<th>3. Rank the three most important performance measures reported to outsiders. (Enter a &quot;1&quot;, &quot;2&quot;, and &quot;3&quot;; leave the others blank.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operations</td>
</tr>
<tr>
<td>Earnings</td>
</tr>
<tr>
<td>Economic value added (EVA)</td>
</tr>
<tr>
<td>Free cash flows</td>
</tr>
<tr>
<td>Pro forma earnings</td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Other measure:</td>
</tr>
</tbody>
</table>

Source: [https://www.faculty.fuqua.duke.edu/~jgraham/finrep/finrpt_3.htm](https://www.faculty.fuqua.duke.edu/~jgraham/finrep/finrpt_3.htm)

Regarding the responds the answer is pretty clear. The three most important measures are: Earnings, Revenues and Cash flows from operations. 159 financial executives have placed Earnings as the most important performance measure. On the second place with 97 respondents we can see Revenues, and on the third one Cash flows from operations with 93 nominations.

In order to have a better perception points have been assigned to each valuation. If the measure has been ranked at the first place it got 3 points, if as second 2 points and, if as the third one one point. Respectively with that rule Revenues got 642, Revenues 377 and, Cash flow from operations 345 points.

Most of mentioned answers can be found in mandatory statements of the companies. We can see that even though the same group of respondents previously claimed that voluntary disclosure is important they do not consider parts of voluntary disclosure as the most important indicators to communicate with outsiders. Complete results of the survey can be found in Appendix, table 4.

5.1.1. Conclusion
As I have mentioned previously I have decided to focus only questions strictly related with voluntary disclosure, therefore, I won't be analysing the rest of the survey. Full questionnaire can be found on http://www.faculty.fuqua.duke.edu/~jgraham/finrep/survey.htm.

From this survey we can conclude that in general voluntary disclosure is recognized as an important tool in communicating company's value. Despite the fact, that it does not include the most important measures to report to outsiders it is very useful in other cases. Most of the respondents answers were in accordance with researches, statements and articles mentioned in my thesis. This means that they were knowledgable about voluntary disclosure, they knew the motives and limitations and had some previous experience regarding that topic.

5.2. Empirical examples of effects of voluntary disclosure

In order to prove that voluntary disclosure is meaningful I would like to present the analysis of two companies' market value with respect to level of voluntary disclosure. I have selected these two completely different firms in order to prove the point previously discussed in my thesis: increased level of voluntary disclosure has positive effects on stock performance. The selected companies are: Let's Gowex S.A. and British Petroleum PLC. I will analyse each of their stock performance affected by disclosure of information.

5.2.1. Gowex case

Following previously discussed example of Quindell, mentioned in section 2.2., I have decided to perform more precise analysis of similar firm – Let's Gowex, S.A. (Gowex).

Gowex is a Spanish Wi-Fi provider. The company has been created in 1999 but the wireless activity started in 2004 (http://www.gowex.com/en/). The company has been crushing the market with its free Wi-Fi networks. Their market price has been increasing and they were getting stronger and stronger market position. Gowex was following the rules of mandatory disclosure avoiding any type of voluntary disclosure. They were publishing what they were obliged to, without providing any extra information about the company. Everything was just perfect till the moment when unknown author from Gotham City Research decided to publish an external investigation of company's value. The report has been published on the 30th of June 2014 on Gotham City research web-page, resolving in a huge drop in price per share. The research has questioned sources of revenues, firm's profits and data published in
mandatory statements. In conclusion, the author of the article values the company at 0.00 euros. Full research can be found on (http://gothamcityresearch.com/2014/07/01/lets-gowex-la-charada-pescanova-a-pescanovan-charade/).

The tendency of the price per share can be seen in Graph 2 modified from Yahoo Finance UK. We can see that on the 4th of April 2014 Gowex's shares were valued at 25.52 euros per share. Starting from this point we can see fluctuations with the general decreasing tendency of its value. Another important date, that I would like to point out, is 30th of June 2014. This is the date when the Gotham's City Research report has been published. Opening price in this day was 19.91 euros per share. Starting from this point, we can see a sharp drop, leading to the price of 10.71 euros (1st of July 2014) just in one day, making it a total decrease of 46.21%. Bad tendency did not finish just in one day... On the 2nd of July 2014, the price has hit 8.04 euros per share making a total decrease (in period from 30.06.2014 to 02.07.2014) of 59.62%. Stock market and Gowex's shareholders were not prepared for this kind of bad news. There was a panic in the market... everyone wanted to sell “toxic” shares. Despite its low price, they would rather get rid of their shares. This surprise resulted in reducing the traded volume to zero and suspending future trading of Gowex's shares.
5.2.2. British Petroleum (BP) case

This section of my thesis I would like to dedicate to a well known company in the oil industry, British Petroleum PLC (BP). I will investigate the effect of voluntary disclosure of positive and negative news coming directly from the company.

BP, as all of the oil industry based company is highly responsible for carbon emission. Nowadays, we can see “going green” tendency in the society, which implies higher involvement in environmental activity of the firm. Therefore, companies with unfavourable effects are highly exposed to a negative public opinion, manifestations, strikes etc. All of this incentives might cause a declining effect on its stock performance. Till the 2nd half of 2013 BP was responsible for 2.5% of global gas emission, ranking the company as a 3rd one within investor's owned firms (http://www.theguardian.com/environment/2013/nov/20/90-companies-man-made-global-warming-emissions-climate-change).
BP's adverse activity was nothing new for stakeholders. Company was honestly informing the public about its bad habits and also, what is even more important, was usually connecting it with a good performance. On one hand a negative signal was sent about BP, to soon be covered up, by some other favourable news. In order to conceal negative aspects British Petroleum got highly involved in many Corporate Social Responsibility (CSR) activities. Moreover, they created a platform to transform information about their activity- BP Magazine. On their web-page we can find a statement “Welcome to the international magazine of the BP group. We bring you regular reports from activities around the globe, the people who make them happen, and the challenges that face our industry.” (http://www.bp.com/en/global/corporate/press/bp-magazine.html).

Now, I would like to move into analysis of share price tendency with respect to information disclosure.

As it can be seen in Graph 2 BP's shares fluctuate during the time but there is no sharp, long drop tendency. This variation have a lot in common with voluntary disclosure of information of the company. In the period between 15-19 of December 2014 we can see a stock price increase. This is the time span when BP announced the purchase for cancellation of the total of 3,206,000 ordinary shares. We can speculate that the believing of management in company's value has pushed the market price up changing it from 373.25 GBP (15.12.2014) to 413.00 GBP (19.12.14), making a total increase in that period of 10.65%. On the other hand BP's management is open about its harsh times. The company has been facing a court case with a fine reaching even over 13 billions dollars. Due to the amount of available information coming directly from the company and press release the possibility of a huge penalty did not affect stock performance as strong, as it could in case of hiding information. On Graph 2 we can see that the share price started to drop even before judge's final decision. On the 14th of January 2015 we can see stock value improvement due to the possibility of stagnant payments over time. Another important date it the 3rd of February 2015. This is the day when British Petroleum informed about quarterly loss of 4.4 billions dollars. Again, market has been prepared for this kind of bad news. The share price has slightly decreased from 449.85 GBP (3.02.15) to 445.35 GBP (4.02.15) resulting in total drop of a bit less than 1%. BP is not shy about informing stakeholders about negative consequences of their activity. On their official web-page we can find information about greenhouse gas emission. The report has been published in the 2nd half of March 2015. On Graph 2 we can see that openly
informing the public about negative consequences of their activity, but also, giving additional information about possible solutions to reduce it, and a comparison of past years with decreasing tendency, will pay off. In the period of that voluntary disclosure we can see a stock improvement from 417.60 GBP on 16\textsuperscript{th} of March 2015 to 451.00 GBP on 20\textsuperscript{th} of March 2015, resulting in total increase of nearly 8%.


Although, the tendency might not be seen so clearly from the graph it has been analysed by Paul A. Griffin and Yuan Sun (2012). In their research they have studied 172 companies and their stock changes in relation with voluntary disclosure. They have discovered that firm's are better off in case of voluntary disclosure of greenhouse gas emission (GHG) data, and strategies to decrease carbon emissions. They note that positive effect in
stock market can be seen few days after the information release. What is important, the effects were compared with other companies, which did not provide any additional information. They note, that in that case there was no significant share price increase. Despite the fact that GHG emission is harmful for the society, it sends another important message: the company is conscious about its environmental responsibility. Seeing markets reactions, investors simply prefer to invest in this type of company (Griffin and Sun, 2012).

5.2.3 Conclusion

As we can see in the following examples, disclosure of additional information might have positive or negative consequences on company's market value.

In case of Quindell and Gowex the disclosure came from an external source and included unfavourable information... Share prices of both companies faced a sharp drop in their value. It was mainly due to the fact that these firms have been manipulating their financial statements and market has finally recognized its true value.

On the other hand many times it is better if firm's management honestly informs its stakeholders about bad situation or negative factors. Shareholders will appreciate honest information and won't panic as much as if it came from an outside source. This tendency, of a smooth price decrease of share-price can be seen in British Petroleum case. The management took bad prospectives in their own hands and publicly informed about firm's bad habits. They faced the situation, where they already expected that the market value will go down sooner or later, and proffered to voluntarily disclosure negative aspects about the company. Market response was noticeable but not as violent as it would be in case if the information was coming from an external source.

Finally, we move on to the effects of disclosure of positive information. In this case it is always better if the company is the source of news but it is not as crucial as in case of bad news. As previously analysed, British Petroleum has a high level of voluntary disclosure. The information does not only come from the company's management... many news come from the press or other researchers.
6. FINAL CONCLUSION

In order to summarize all of the theoretical and practical aspects of voluntary disclosure, discussed in my paper I will present its pros and cons in the table.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More complete view of company,</td>
<td>• Loose of competitive advantage,</td>
</tr>
<tr>
<td>• Reduced information asymmetry,</td>
<td>• Need of continuity, once started is hard to stop,</td>
</tr>
<tr>
<td>• Fulfilled compulsory information,</td>
<td>• Increases public's expectations regarding future disclosures,</td>
</tr>
<tr>
<td>• More frequent information,</td>
<td>• Bad information has to be shared,</td>
</tr>
<tr>
<td>• Lower cost of capital,</td>
<td>• Penalisation for failure,</td>
</tr>
<tr>
<td>• Prevents from hiding bad information (from investor's perspective)</td>
<td>• Can be used against the management,</td>
</tr>
<tr>
<td>• Increased analysts coverage,</td>
<td>• Increases the involvement of shareholders and might lead to unnecessary conflicts,</td>
</tr>
<tr>
<td>• Helps to reflect company's real value,</td>
<td>• Could slow down the decision-making process,</td>
</tr>
<tr>
<td>• Protects from undervaluation,</td>
<td>• Might lead to political attacks,</td>
</tr>
<tr>
<td>• Increased stock prices,</td>
<td>• The information can be false, nobody controls it,</td>
</tr>
<tr>
<td>• Stronger fluidity of stocks</td>
<td>• Generates additional cost.</td>
</tr>
<tr>
<td>• In case of poor performance drop in price of shares spread over time,</td>
<td></td>
</tr>
<tr>
<td>• Decreased uncertainty of investors</td>
<td></td>
</tr>
<tr>
<td>• Increase the communication with stakeholders,</td>
<td></td>
</tr>
<tr>
<td>• Reflects management talent,</td>
<td></td>
</tr>
<tr>
<td>• Reduces contracting costs,</td>
<td></td>
</tr>
<tr>
<td>• Motivates for better performance</td>
<td></td>
</tr>
<tr>
<td>• Improves business reporting</td>
<td></td>
</tr>
<tr>
<td>• Lowers the risk of misallocation of capital</td>
<td></td>
</tr>
<tr>
<td>• Improves investment decisions,</td>
<td></td>
</tr>
</tbody>
</table>
As we can clearly see voluntary disclosure has its advantages and disadvantages. Depending of what the company is disclosing it will result either in positive or negative consequences. Some of the internal information will generate higher benefits if it is not shared with outsiders. Regardless that fact, many times voluntary disclosure has increased company's market value, decreased the cost of capital and helped to reflect its real value. Due to its double nature, positive and negative effects, managers have to be really careful of what they want to disclose. Managements role it to find a perfect equilibrium, giving the best option for the company.
## 7. APPENDIX

### Table 1
Survey response to the question: Do these statements describe your company’s motives for voluntarily communicating financial information?

### Panel A: Unconditional averages

<table>
<thead>
<tr>
<th>Question</th>
<th>Voluntarily communicating information...</th>
<th>% agree or strongly agree</th>
<th>% disagree or strongly disagree</th>
<th>Average rating</th>
<th>( H_0: \text{average rating} = 0 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Promotes a reputation for transparent/accurate reporting</td>
<td>92.1</td>
<td>2.0</td>
<td>1.39</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(2) Reduces the “information risk” that investors assign to our stock</td>
<td>81.9</td>
<td>4.3</td>
<td>1.03</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(3) Provides important information to investors that is not included in mandatory financial disclosures</td>
<td>72.1</td>
<td>8.9</td>
<td>0.86</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(4) Increases the predictability of our company’s future prospects</td>
<td>56.2</td>
<td>14.4</td>
<td>0.53</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(5) Attracts more financial analysts to follow our stock</td>
<td>50.8</td>
<td>17.0</td>
<td>0.43</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(6) Corrects an under-valued stock price</td>
<td>48.4</td>
<td>16.4</td>
<td>0.37</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(7) Increases the overall liquidity of our stock</td>
<td>44.3</td>
<td>17.4</td>
<td>0.31</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(8) Increases our P/E ratio</td>
<td>42.0</td>
<td>18.0</td>
<td>0.27</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(9) Reveals to outsiders the skill level of our managers</td>
<td>41.3</td>
<td>26.2</td>
<td>0.16</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(10) Reduces our cost of capital</td>
<td>39.3</td>
<td>22.0</td>
<td>0.17</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>(11) Reduces the risk premium employees demand for holding stock granted as compensation</td>
<td>9.2</td>
<td>49.2</td>
<td>-0.57</td>
<td>***</td>
<td></td>
</tr>
</tbody>
</table>

### Panel B: Conditional averages

<table>
<thead>
<tr>
<th>Question</th>
<th>% agree or strongly agree</th>
<th>Obs.</th>
<th>Size</th>
<th>P/E</th>
<th>Sales growth</th>
<th>D/A</th>
<th>Credit rating</th>
<th>Tech industry</th>
<th>Insider</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Small</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>(1)</td>
<td>92.1</td>
<td>305</td>
<td>90.6</td>
<td>94.0</td>
<td>92.9</td>
<td>90.7</td>
<td>89.1</td>
<td>93.8</td>
<td>88.5</td>
<td>93.6</td>
</tr>
<tr>
<td>(2)</td>
<td>81.9</td>
<td>304</td>
<td>78.2</td>
<td>85.3</td>
<td>78.8</td>
<td>85.6</td>
<td>77.0</td>
<td>84.4</td>
<td>77.9</td>
<td>81.6</td>
</tr>
<tr>
<td>(3)</td>
<td>72.1</td>
<td>305</td>
<td>66.9</td>
<td>77.3**</td>
<td>73.5</td>
<td>68.0</td>
<td>66.2</td>
<td>76.6*</td>
<td>66.4</td>
<td>75.9*</td>
</tr>
<tr>
<td>(4)</td>
<td>56.2</td>
<td>306</td>
<td>47.7</td>
<td>64.7***</td>
<td>56.6</td>
<td>58.8</td>
<td>49.3</td>
<td>60.9*</td>
<td>49.6</td>
<td>61.7**</td>
</tr>
<tr>
<td>(5)</td>
<td>50.8</td>
<td>305</td>
<td>57.0</td>
<td>45.6**</td>
<td>53.1</td>
<td>44.8</td>
<td>49.0</td>
<td>52.3</td>
<td>52.7</td>
<td>50.7</td>
</tr>
<tr>
<td>(6)</td>
<td>48.4</td>
<td>304</td>
<td>51.0</td>
<td>46.7</td>
<td>48.4</td>
<td>46.3</td>
<td>50.8</td>
<td>46.9</td>
<td>51.1</td>
<td>55.4</td>
</tr>
</tbody>
</table>

Table 2. Survey responses to the question: Limiting voluntary communication of financial information helps...

### Panel A: Unconditional averages

<table>
<thead>
<tr>
<th>Question</th>
<th>% agree or strongly agree</th>
<th>% disagree or strongly disagree</th>
<th>Average rating</th>
<th>H0: average rating = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Avoid setting a disclosure precedent that may be difficult to continue</td>
<td>69.6</td>
<td>14.7</td>
<td>0.74</td>
<td>***</td>
</tr>
<tr>
<td>(2) Avoid giving away “company secrets” or otherwise harming our competitive position</td>
<td>58.8</td>
<td>24.8</td>
<td>0.49</td>
<td>***</td>
</tr>
<tr>
<td>(3) Avoid possible lawsuits if future results don’t match forward-looking disclosures</td>
<td>46.4</td>
<td>25.5</td>
<td>0.26</td>
<td>***</td>
</tr>
<tr>
<td>(4) Avoid potential follow-up questions about unimportant items</td>
<td>36.7</td>
<td>30.5</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>(5) Avoid attracting unwanted scrutiny by regulators</td>
<td>20.3</td>
<td>56.7</td>
<td>−0.52</td>
<td>***</td>
</tr>
<tr>
<td>(5) Avoid attracting unwanted scrutiny by stockholders and bondholders</td>
<td>16.8</td>
<td>54.8</td>
<td>−0.56</td>
<td>***</td>
</tr>
</tbody>
</table>

### Panel B: Conditional averages

<table>
<thead>
<tr>
<th>Question</th>
<th>% agree or strongly agree</th>
<th>Obs.</th>
<th>Size</th>
<th>P/E</th>
<th>Sales growth</th>
<th>D/A</th>
<th>Credit rating</th>
<th>Tech industry</th>
<th>Insider</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Small</td>
<td>Large</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>(1)</td>
<td>69.6</td>
<td>306</td>
<td>73.8</td>
<td>66.7</td>
<td>66.4</td>
<td>69.1</td>
<td>72.3</td>
<td>64.8</td>
<td>71.8</td>
<td>66.7</td>
</tr>
<tr>
<td>(2)</td>
<td>58.8</td>
<td>306</td>
<td>64.4</td>
<td>52.7**</td>
<td>54.0</td>
<td>63.9</td>
<td>62.2</td>
<td>58.6</td>
<td>67.2</td>
<td>52.5**</td>
</tr>
</tbody>
</table>

### Table 3.
Questions related to timing of disclosures: Do the following statements describe your company’s motives related to the timing of voluntary disclosure?

**Panel A. Survey responses to the question: Based on your company’s experience, is good news or bad news released to the public faster?**

<table>
<thead>
<tr>
<th>Bad news faster</th>
<th>No difference</th>
<th>Good news faster</th>
<th>Average rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>28.6</td>
<td>52.9</td>
<td>20.5</td>
<td>-8.12</td>
</tr>
</tbody>
</table>

**Panel B. Survey responses to the question: Do the following statements describe your company’s motives related to the timing of voluntary disclosure?**

<table>
<thead>
<tr>
<th>Question</th>
<th>Agree or disagree</th>
<th>Disagree or strongly disagree</th>
<th>Average rating</th>
<th>HR average rating = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Disclosing bad news faster enhances our reputation for transparent and accurate reporting</td>
<td>76.6</td>
<td>3.7</td>
<td>8.90 ***</td>
<td></td>
</tr>
<tr>
<td>(2) Disclosing bad news faster reduces our risk of potential lawsuits</td>
<td>76.6</td>
<td>6.3</td>
<td>8.91 ***</td>
<td></td>
</tr>
<tr>
<td>(3) Good news is released faster because bad news takes longer to analyze and interpret</td>
<td>66.7</td>
<td>17.7</td>
<td>8.76 ***</td>
<td></td>
</tr>
<tr>
<td>(4) Good news is released faster because we try to package bad news with other disclosures which can result in a coordination delay</td>
<td>35.5</td>
<td>37.1</td>
<td>-9.05 **</td>
<td></td>
</tr>
</tbody>
</table>

**Panel C. Conditional averages**

<table>
<thead>
<tr>
<th>Question</th>
<th>Agree or disagree</th>
<th>Obs.</th>
<th>E/P</th>
<th>Sales growth</th>
<th>D/A</th>
<th>Credit rating</th>
<th>Tech industry</th>
<th>Insider</th>
<th>Exchange</th>
<th>Size</th>
<th>P/E</th>
<th>Ownership</th>
<th>Profitable</th>
<th>Firm age</th>
<th>Guidance</th>
<th>Number of analysts</th>
<th>CEO education</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Disclosing bad news faster enhances our reputation for transparent and accurate reporting</td>
<td>76.6</td>
<td>82</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>7.2</td>
<td>3.7</td>
<td>38.8</td>
<td>58.8</td>
<td>7.0</td>
<td>70.9</td>
<td>70.8</td>
<td>70.8</td>
</tr>
<tr>
<td>(2) Disclosing bad news faster reduces our risk of potential lawsuits</td>
<td>76.6</td>
<td>82</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>7.0</td>
<td>3.7</td>
<td>38.8</td>
<td>58.8</td>
<td>7.0</td>
<td>70.9</td>
<td>70.8</td>
<td>70.8</td>
</tr>
<tr>
<td>(3) Good news is released faster because bad news takes longer to analyze and interpret</td>
<td>66.7</td>
<td>63</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>7.0</td>
<td>3.7</td>
<td>38.8</td>
<td>58.8</td>
<td>7.0</td>
<td>70.9</td>
<td>70.8</td>
<td>70.8</td>
</tr>
<tr>
<td>(4) Good news is released faster because we try to package bad news with other disclosures which can result in a coordination delay</td>
<td>35.5</td>
<td>62</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>7.0</td>
<td>3.7</td>
<td>38.8</td>
<td>58.8</td>
<td>7.0</td>
<td>70.9</td>
<td>70.8</td>
<td>70.8</td>
</tr>
</tbody>
</table>

See Table 3 legend for table and variable descriptions. Responses used in rows (1) and (2) include only those respondents who indicated a preference for disclosing bad news faster. Likewise, responses used in rows (3) and (4) include only those respondents who indicated a preference for disclosing good news faster.


### Table 4.
Survey responses to the question: Rank the three most important performance measures reported to outsiders

**Panel A: Unconditional averages**

<table>
<thead>
<tr>
<th>Measure</th>
<th>#1 rankings</th>
<th>#2 rankings</th>
<th>#3 rankings</th>
<th>Total points</th>
<th>Average points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>159</td>
<td>67</td>
<td>31</td>
<td>642</td>
<td>2.10</td>
</tr>
<tr>
<td>Revenues</td>
<td>36</td>
<td>97</td>
<td>75</td>
<td>377</td>
<td>1.24</td>
</tr>
<tr>
<td>Cash flows from operations</td>
<td>36</td>
<td>72</td>
<td>93</td>
<td>345</td>
<td>1.13</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>30</td>
<td>41</td>
<td>42</td>
<td>214</td>
<td>0.70</td>
</tr>
<tr>
<td>Pro-forma earnings</td>
<td>38</td>
<td>10</td>
<td>24</td>
<td>158</td>
<td>0.52</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>13</td>
<td>28</td>
<td>75</td>
<td>0.25</td>
</tr>
<tr>
<td>EVA</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>19</td>
<td>0.06</td>
</tr>
</tbody>
</table>

**Panel B: Conditional averages**

<table>
<thead>
<tr>
<th>Measure</th>
<th>Average Obs.</th>
<th>Size</th>
<th>P/E</th>
<th>Sales growth</th>
<th>D/A</th>
<th>Credit rating</th>
<th>Tech industry</th>
<th>Insider</th>
<th>Exchange</th>
<th>Size</th>
<th>P/E</th>
<th>Ownership</th>
<th>Profitable</th>
<th>Firm age</th>
<th>Guidance</th>
<th>Number of analysts</th>
<th>CEO education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>2.10</td>
<td>305</td>
<td>2.06</td>
<td>2.13</td>
<td>2.38</td>
<td>2.10**</td>
<td>2.14</td>
<td>2.11</td>
<td>2.20</td>
<td>2.01</td>
<td>2.12</td>
<td>2.16</td>
<td>1.88</td>
<td>2.17</td>
<td>2.06</td>
<td>2.05</td>
<td>2.15</td>
</tr>
<tr>
<td>Revenues</td>
<td>1.24</td>
<td>305</td>
<td>1.37</td>
<td>1.10**</td>
<td>1.09</td>
<td>1.37*</td>
<td>1.17</td>
<td>1.39*</td>
<td>1.34**</td>
<td>1.11*</td>
<td>0.96</td>
<td>1.27**</td>
<td>1.12</td>
<td>1.12</td>
<td>1.34**</td>
<td>1.43</td>
<td>1.19***</td>
</tr>
<tr>
<td>Cash flows from ops</td>
<td>1.13</td>
<td>305</td>
<td>1.18</td>
<td>1.08</td>
<td>1.08</td>
<td>1.07</td>
<td>1.14</td>
<td>1.09</td>
<td>1.11</td>
<td>1.12</td>
<td>1.23</td>
<td>1.02</td>
<td>1.14</td>
<td>1.05</td>
<td>1.08</td>
<td>1.17</td>
<td>1.21</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>0.70</td>
<td>305</td>
<td>0.64</td>
<td>0.75</td>
<td>0.71</td>
<td>0.75</td>
<td>0.76</td>
<td>0.63</td>
<td>0.07</td>
<td>0.80</td>
<td>0.89</td>
<td>0.82*</td>
<td>0.89</td>
<td>0.73</td>
<td>0.60</td>
<td>0.74</td>
<td>0.76</td>
</tr>
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</table>

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  https://uk.finance.yahoo.com/q?s=QPP.L