

ADVANTAGES AND DISADVANTAGES OF VOLUNTARY DISCLOSURE OF COMPANIES

1. INTRODUCTION

The trend towards voluntary disclosure is still not so popular. Managers hesitate either it is better or worst 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.

In my bachelor thesis I investigated the theoretical and practical aspects about voluntary disclosure, analysed its consequences and studied motivations and limitations that managers face if they want to share more information than the government is requiring.

2. OBJECTIVES

- Summarize and clarify most crucial aspects about voluntary disclosure.
- Investigate the effects of voluntary disclosure on companies' performance.
- Put advantages and disadvantages evaluation on a scale.
- Encourage management towards the trend.

3. THEORETICAL DEVELOPMENT

MOTIVATIONS TOWARDS VOLUNTARY DISCLOSURE

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| <p>1) Capital market transactions hypothesis</p> <ul style="list-style-type: none"> • How the company is seen by investor • Decreases cost of capital <p>2) Corporate control contest hypothesis</p> <ul style="list-style-type: none"> • Control tool – price of shares • Fear of losing job – better performance motivation <p>3) Stock compensation hypothesis</p> <ul style="list-style-type: none"> • Managers “owners” of the company • Increase company's stock value | <p>4) Litigation cost hypothesis</p> <ul style="list-style-type: none"> • Explanation of bad situation • Reduction of conflict possibility <p>5) Management talent signalling hypothesis</p> <ul style="list-style-type: none"> • Accurate speculations • Market rewards <p>6) Limitations of mandatory disclosures</p> <ul style="list-style-type: none"> • Mandatory statements not clear enough • Need for additional information |
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LIMITATIONS TOWARDS VOLUNTARY DISCLOSURE

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| <p>1) Disclosure precedent</p> <ul style="list-style-type: none"> • Increasing expectations • Once you start it is hard to stop <p>2) Litigation costs</p> <ul style="list-style-type: none"> • Unnecessary conflicts • Possible punishment <p>3) Proprietary cost</p> <ul style="list-style-type: none"> • Exposing company's secrets • Lose of competitive advantage | <p>4) Agency costs</p> <ul style="list-style-type: none"> • Unnecessary questions • Slower decision process <p>5) Political costs</p> <ul style="list-style-type: none"> • Information used against • Political attacks |
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4. RESULTS

LET'S GOWEX, S.L. (GOWEX)



- Avoidance of voluntary disclosure
- Falsified mandatory statements
- External disclosure
- Sharp drop in share price
- Suspended future trading

BRITISH PETROLEUM PLC. (BP)



- Internal voluntary disclosure
- Positive market reactions to additional information
- Bad news → not so shocking
- Smooth price variations
- Reflected real value of the company

- Voluntary disclosure has a double nature.
- Depending on disclosed information it might result in positive or negative consequences.
- Managers should be careful on what and when to disclose.

- Despite disadvantages, careful and conscious disclosure will be beneficial for company.
- Management should get encouraged towards voluntary disclosure.

5. CONCLUSIONS

Voluntary disclosure, as any other aspect, has its advantages and disadvantages. Managers have to face motivations and limitations and carefully decide which path is best for the company.

Firms should improve the level of voluntary disclosure because conscious and smart decisions regarding that trend will be profitable for the company. Managements role it to find a perfect equilibrium, giving the best option for the firm.

6. RELEVANT REFERENCES

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