Increasing expectations

Possible punishment

Gotham

Bad news → not so

Exposing company’s

Depending on disclosed information it might result in positive or negative

Reduction of conflict possibility

Suspended future

Falsified mandatory

Managers should be careful on what and when to

Graham, John R., Campbell R. Harvey, and

Uk.finance.yahoo.com

External disclosure

Smooth price

Encourage management towards the

Despite disadvantages, careful and conscious disclosure will be beneficial for

Need for additional information

Unnecessary questions

Information used against

Reflected real value of

Put advantages and disadvantages evaluation on a

Unnecessary conflicts

Decreases cost of capital

Managers “owners” of the

Increase

Market rewards

How the company is seen by investor

Voluntary disclosure has a double

Summary and clarify most crucial aspects about voluntary

Investigate the

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

1) Capital market transactions hypothesis
   • How the company is seen by investor
   • Decreases cost of capital

2) Corporate control contest hypothesis
   • Control tool – price of shares
   • Fear of losing job – better performance motivation

3) Stock compensation hypothesis
   • Managers “owners” of the company
   • Increase company’s stock value

4) Litigation cost hypothesis
   • Explanation of bad situation
   • Reduction of conflict possibility

5) Management talent signalling hypothesis
   • Accurate speculations
   • Market rewards

6) Limitations of mandatory disclosures
   • Mandatory statements not clear enough
   • Need for additional information

LIMITATIONS TOWARDS VOLUNTARY DISCLOSURE

1) Disclosure precedent
   • Increasing expectations
   • Once you start it is hard to stop

2) Litigation costs
   • Unnecessary conflicts
   • Possible punishment

3) Proprietary cost
   • Exposing company’s secrets
   • Lose of competitive advantage

4) Agency costs
   • Unnecessary questions
   • Slower decision process

5) Political costs
   • Information used against
   • Political attacks

4. RESULTS

LET’S GOWEX, S.L (GOWEX)

• Avoidance of voluntary disclosure
• Falseified 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 shaking
• Smooth price variations
• Reflected real value of the company

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