International Journal of Economics and Finance
www.ccsenet.org/journal.html
Vol. 1, No. 2
August 2009

Concept of Voluntary Information Disclosure and A Review of Relevant Studies

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Abstract

Along with the economic development, the compulsory information disclosure of listed companies can not satisfy investors' diversified information needs. The society advances higher requirements for listed companies' information disclosure, which drives listed companies to disclose more information voluntarily. Recently, voluntary disclosure has gradually become a focus domestic and abroad because voluntary disclosure has positive impacts on the communication of corporate management agency and interests-related parties, the decrease of information asymmetry of investors, and the improvement of quality of disclosed information. On one hand, voluntary disclosure can detail and deepen compulsory disclosure, improving the credibility and completeness of compulsory disclosure. On the other hand, it can complement and expand the compulsory disclosure, for the sake of realizing the more complete, diversified, and systematic information disclosure. Therefore, the voluntary disclosure serves as an effective way for communicating interest-related parties and describing the corporate prospect. It is meaningful for perfecting listed companies' governance structure and enhancing the protection for investors' interests.

Keywords: Information disclosure, Voluntary, Compulsory, Literature review

1. The concept of information disclosure system and the evolvement of disclosure way

Information disclosure is also named as information publicity. Information disclosure system means a series of behavioral regulations and activity standards for relevant parties in the securities market who publicize the information related with securities by certain way in the process of issuing stocks, listing on the market, and trading, according to laws, and rules of securities administrative agencies and stock exchanges. To ask companies that issue securities openly to execute the information disclosure system is the core content of modern securities market. It covers the whole process of securities' issue and circulation. Usually, before the issue of stocks, companies publicize stock-issuing introductions, listing announcements, interim reports, annual reports, and grave affair reports, mainly including companies' operations and financial statements.

At the initial stage of securities market, voluntary disclosure is dominating. What securities regulatory agencies believe is the "invisible hand". Driven by interests, participators' rational trading activities can make securities market realize a balance in which "information is disclosed completely and resources are allocated effectively". However, the New York Stock Exchange Panic in 1929 has stricken seriously the regulatory idea of "invisible hand". The U.S. Congress issued the Securities Act of 1933 and the Securities Exchange Act of 1934, and formed the Securities and Exchange Commission (SEC), which signalized a transformation from voluntary disclosure to compulsory disclosure.

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. Voluntary disclosure means, except for compulsory disclosure, listed companies disclose information voluntarily for the sake of companies' images, investors, and accusation risks avoidance. On Jan. 29, 2001, the Business Reporting Research Project (BRRP) under the Financial Accounting Standards Board (FASB) (FASB, 2001) issues the Improving Business Reporting: Insights into Enhancing Voluntary Disclosure Steering Committee Report. This report chooses many listed companies in 8 industries as samples, summarizes voluntary disclosure's types, frame, costs, and effects, and makes prospect for the future business reports. It defines voluntary disclosure as: the information disclosed voluntarily by listed companies, but not the basic financial information that is required to be publicized by the widely acceptable accounting principles and the requirements of securities regulatory agencies. Voluntary disclosure aims at introducing and explaining companies' potentials to investors, driving the fluidity of capital market, guaranteeing more effective allocation of capitals, and decreasing capital costs. Achieve a more positive communication with investors as perfecting the information disclosure market regulatory rules.

Viewing from the development of information disclosure system, voluntary disclosure appears after compulsory information disclosure. In a sense, voluntary disclosure is the extension and complement of compulsory information disclosure system. Different history periods, the two may have different concepts. According to relevant laws and regulations, compulsory disclosure and voluntary disclosure can be transformed mutually. In different economic, political, legal, and social environments, countries face different conditions concerning voluntary disclosure due to the differences in relevant laws.

On the other hand, compulsory disclosure can depress or affect voluntary disclosure. Ronen and Raari (Ronen & Yaari, 2002, p21-23) point out that compulsory disclosure can not stop the disclosure of false information but restrain voluntary disclosure. Therefore, some companies may choose to adopt a partial disclosure strategy by which they merely disclose positive news or negative news. A research completed by Gigler F. and T.Hemmer (Gigler F. & T.Hemmer, 1998, p117-147) shows that the perfect of compulsory disclosure and relevant market regulatory have two impacts on voluntary disclosure.

(1) Reduce listed companies' voluntary disclosure. If listed companies have been asked to disclose more information, voluntary disclosure will increase companies' costs, including information process and issue costs, accusation risks, and losing competitive advantages. Meanwhile, compulsory disclosure is replaceable, which makes managers short of motives for voluntary disclosure.

(2) Under the circumstance of poor quality of compulsory disclosure and powerless market regulatory, managers adopt voluntary disclosure to send signals to the capital market, with the hope of obtaining a positive feedback. At this moment, more information will be disclosed voluntarily.

Stocken (Stocken, P.C., 2000, p359-374) studies the credibility of voluntary disclosure. Conclusions show that along with the improvement of information quality in compulsory disclosure, the information quality of voluntary disclosure will be improved either. If time period is long, punishment is effective, and the information quality in compulsory disclosure is so good that it can be used as evaluation standards for voluntary disclosure, corporate managers will disclose true information voluntarily.

2. Differences between voluntary disclosure and compulsory disclosure

According to the contents of information disclosure, it can be sorted into voluntary disclosure and compulsory disclosure. In order to define the concept of voluntary disclosure clearly, we list differences between the two in Table 1 as follow.

Besides, foreign scholars hold different opinions toward voluntary disclosure.

Haskins, Ferris, and Selling (Haskins M.E, K.R..Ferris & T.L. Selling, 2000) agree that in 90s in 20th century the information asymmetry risk is rising in securities market. It is more possible for Asia new immature market hiding bad news than Europe and America mature markets. In other words, the opportunism behaviors are more popular than ever. Because more and more Asian companies focus on foreign capitals in financing, they must realize a more transparent disclosure. For the sake of self pursuit, companies prefer to disclose more information voluntarily. Furthermore, companies should understand the potential pressure that securities analyzers and other information channels can provide sufficient and rich information. If information is from intermediary agencies but not be disclosed by companies, it is hard to decrease the capital casts. Besides, voluntary disclosure is under the influences of ownership distribution. Most Europe and America companies are separate ownership. Lost of shareholders ask higher requirements for information disclosure. So, the degree of voluntary disclosure in these companies is high. In contrast, Asian companies have concentrated ownership. Shareholders, differing from western shareholders, require less for financial reports. So, the degree of voluntary disclosure in these companies is low.

Cooke, T.E (Cooke, T. E., 1999, p174-89) assesses the voluntary disclosure of Japanese corporations. He points that corporations hold a conservative and resist attitude toward increasing information disclosure. An important decisive factor for the degree of information disclosure is the size of corporation. Another factor is the types of listed companies. Studies prove that listed companies with many kinds of stocks disclose more information than that with one kind of stock.

Choi, Frost, and Meek (Choi, F.D.S., Frost C. & Meek, 1999) recognize that why voluntary disclosure is at a lower degree in tradition is because the administrative authorities think that the cost of voluntary disclosure is higher than the return. But strong economic motive may change the traditional attitude. For example, when there is a strong demand for international capitals, conservative companies will change their information disclosure attitude and behaviors sharply.

Healy P M, Palepu KG (Healy, P. & Palepu, K., 1993, p1-11) think that the credibility of voluntary disclosure associates closely with the professional level of intermediary agencies. Intermediary agencies offer guaranties for voluntary disclosure to certain degree. Meanwhile, investors' acceptance to the credibility of voluntary disclosure also affects listed companies' strategy of information disclosure.

Botosan (Botosan, C.A., 1997, p323-350), from Utah State University, scores the disclosure of 122 manufacturing companies by an average voluntary disclosure index, and calculates the costs of equity capital by a pricing model created by Ohlson, then finds the relationship between the two. Finally, he finds that there is a positive correlation between costs of equity capital and corporate risks. Studies show that voluntary disclosure can decrease costs of equity capital.

Healy (Healy P, Hutton A. & Palepu k., 1999, p485-520), from Harvard Business School, selects 97 companies to study whether the rise of voluntary disclosure is accompanied with improvement of market. Studies show that: as disclosure is improved, sample companies' stock prices rise by 7% in average at the current year; at the second year, stock price rises by 8%; during the current year and the following three years, the number of institutions holding sample companies' stocks rise by 12% - 24% in average. Besides, the sample companies are highly praised by more financial analyzers. The fluidity of stocks is stronger and the uncertainty of investors is lower.

3. Studies on influencing factors of voluntary disclosure domestic and abroad

Many empirical studies concern the influencing factors of voluntary disclosure in foreign countries. As a matter of fact, empirical studies mostly concentrate on listed companies in certain country.

Chow (Chow C.W. & Wong-Boren. A., 1987, p533-541) make an empirical research on 52 Mexican manufacturing corporations' voluntary disclosure. They select three independent variables, namely corporate size, financial leverage, and assets, to make a regression analysis. Results show that voluntary disclosure is far different among these corporations, which only associates with corporate size, and has nothing to do with the other two factors. Hossain and his partners (Hossain, M., Perera, M.M.B, & Rahman, A.R., 1995, p69-87) make an empirical study on New Zealand companies' voluntary disclosure. At that time, the economy in New Zealand is developing toward more opening and competitive. Many companies try every means to attract investors. Empirical studies show that corporate size, financial leverage, assets proportion, authority of audit institution, and listing in other area exert significant impacts on voluntary disclosure. Mitchell (Mitchell, Jason. D, Chia, Chris. W. L. & Loh, Andrew. S., 1995, p1-16) and his partners make an empirical research on the influencing factors of listed companies performing voluntary disclosure of segment information in Australian exploration and oil industry. Results show that corporate size and financial leverage have significant impacts on the level of disclosure. Cooke (Cooke, T.E., 1992, p229-237) completes an empirical study on Japanese listed companies' voluntary disclosure and compulsory disclosure by annual reports. Results show that the size, stock market listing and industry type have significant impacts on the level of disclosure, and listed manufacturing companies disclose more information than companies in other industries. Antti and Hannu (Antti, J. Kanto & Hannu, J. Schadewitz, 1997, p229-249) test the influencing factors of voluntary disclosure policy and compulsory disclosure policy adopted by non-financial companies listing in Helsinki Stock Exchange (Finland) from 1985 to 1993. They draw a conclusion that the type of company can determine the compulsory disclosure policy, but the voluntary disclosure is determined by not only the type of company, but also the size, capital structure, and the growth of company.

Later, in the tide of economic expansion and globalization, corporations grow fast. Gray, Meek and other scholars begin to notice multi-national companies' voluntary disclosure. Meek (Meek, G. K, Roberts, C. B., & Gray, S. J., 1995, p555-572) and his partners select 116 US, 64 UK, and 46 continental European multinational corporations as samples to make an empirical study on the factors influencing voluntary annual report disclosures. They find that the corporate size, the country or area where the corporation lives, the listing condition, and the industry turn into the most important influencing factors. Meek and his partners separate voluntary information into strategic information, non-financial information, and financial information. They find that the influence changes because of different information type. In specific, continental European multinational corporations disclose more strategic information than US and UK multinational corporations. UK and continental European multinational corporations disclose more non-financial information than US multinational corporations. Meanwhile, the larger the corporation is, the more it discloses information. The multinational corporations in oil, chemistry, and exploration industries need to disclose more non-financial information. For financial information, there is an effect of corporate size. And the regional differences are prominent. UK multinational corporations disclose less financial information than US and continental European multinational corporations. Meanwhile, multinational corporations listing in foreign areas disclose more financial information, what are under the influences of industrial factors either.

Studies completed by Gray, Meck, and Roberts (Gray, Sidney J. Gary K. Meek & Clare B. Roberts, 1993) show that companies that participate in international capital market prefer to perform more voluntary disclosures comparing with companies that operate only in domestic country. Gray and his partners study not only the impacts of listing in foreign areas on voluntary disclosure, but also many other variables, including the corporate size, location, industry, financial leverage, profitability, etc.

Choi and Levich (Choi, Frederick D.S. & Richard M. Levich, 1990) think that multinational corporations' voluntary disclosure aims at dealing with changes of international accounting principles. Many European and American documents concerning voluntary disclosure are mostly focusing on local areas, and seldom mention Asian countries.

Gerald and Sidney (Gerald K. Chau & Sidney J. Gray, 2002, p247-265) use the information disclosure table built by Meek and his partners to make an empirical study on the voluntary disclosure of 62 industrial listed companies in Hong Kong and Singapore. Studies show that the external shareholders' shareholding proportion is proportional to the level of corporate voluntary disclosure. Besides, because many listed companies in Hong Kong and Singapore are family companies, the empirical study shows that family companies' voluntary disclosure is less than that of non-family companies.

At present in China, studies on voluntary disclosure mainly focus on theories. Weidong He (Weidong He, 2002) analyzes listed companies' voluntary disclosure in perspective of corporate strategic management, considering the difficulties and chances in front of China's listed companies. Based on summarizing foreign experiences in securities regulatory agencies' measures and listed companies' voluntary disclosure, he discuses the internal motives and external phenomenon of China's listed companies' voluntary disclosure, and advances policy suggestions "encouraging voluntary disclosure, enhancing market regulatory". Derong Zhang (Derong Zhang, 2002, p22-23) suggests to enhance the voluntary disclosure in China and advances a selection method for information disclosure, considering the fact that Chinese companies seldom perform voluntary disclosure. Minghui Li (Minghui Li, 2001, p70-75) firstly makes an economic analysis of voluntary disclosure, and then analyzes reasons for why Chinese companies seldom implement voluntary disclosure. Minghui Li and Hai He (Minghui Li, Hai He & Xikui Ma, 2003, p38-43) analyze the disclosure of internally controlled information in Chiense listed companies in 2001 and conclude that the internally controlled information in Chinese listed companies are mostly useless, without any essential content at present. Listed companies have no strong motives for voluntary disclosure. It reflects a fact in a sense that there is certain correlation between the disclosure of internally controlled information and financial report quality, and corporate quality. It is necessary to update relevant rules, making specific and feasible regulations on the disclosure of internally controlled information, enhancing audit to disclosure by registered accountants, and promoting the disclosure of internally controlled information. Yunfang Zhao and Yunfeng Li (Yunfang Zhao & Yunfeng Li, 2003, p284-285) suggest to strengthen the supervision and management of voluntary disclosure. As improving the voluntary disclosure quality, evaluate accounting information reasonably. By this way, it benefits investors on one hand. On the other hand, it drives companies to actualize timely and reasonable voluntary disclosure.

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Table 1. A comparison of voluntary disclosure and compulsory disclosure.

Way of disclosure / Item	Voluntary disclosure	Compulsory disclosure
Definition	Except compulsory disclosure, the information disclosed by listed companies for the sake of corporate images, relationship with investors, and avoidance of accusation risks	The information that is required to be disclosed according to the securities law, accounting principles, and regulatory agencies' regulations
Motive	Self-interested information communication between listed companies and other interest-related parties	Use laws and regulations to adjust the information communication between listed companies and other interest-related parties
Content	Companies' future strategies, R&D plans, prediction information, purchase and merger information, investment project analysis, and financial information analysis, etc.	Companies introduction, basic financial information, information about the board and top managers, vital related transactions, explains for important items
Carrier	Annual reports, public announcement, booklets, website, road show, etc.	Annual report, interim report, and season report
Time	At the right time	Fixed time in a year and a season
Balance mechanism	Corporate governance mechanism's design and effectiveness	Laws' regulations and execution
Root of disclosure	Economic globalization and globalization of capital market	Monopoly of companies on self information

Table 2. A review of some literatures on voluntary disclosure.

Chief author	Time	Sample country or area	Industry	Significant influencing factor
Chow	1987	Mexico	Manufacture	Corporate size, financial leverage, asset proportion
Hossain	1995	New Zealand	No limits	Corporate size, financial leverage, asset proportion, authority of audit institutions, listing in foreign areas
Mitchell	1995	Australia	Exploration and oil	Corporate size, financial leverage
Cooke	1992	Japan	No limits	Corporate size, stock in market, type of industry
Antti	1997	Finland	Non-financial and non-insurance	Corporate size, capital structure, corporate growth, corporate type
Meek	1995	US, UK, continental European	Multinational corporation, no limits for industry	Corporate size, conditions of country or area where corporations operate, industry
Gerald	2002	Hong Kong, Singapore	Industry	External shareholders' shareholding proportion