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**VOLUNTARY DISCLOSURE OF CORPORATE STRATEGY:
DETERMINANTS AND OUTCOMES**

An empirical study into the risks and payoffs
of communicating corporate strategy

Henricus Petrus Theodorus COEBERGH

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ABSTRACT

VOLUNTARY DISCLOSURE OF CORPORATE STRATEGY: DETERMINANTS AND OUTCOMES

Keywords: Voluntary disclosure, corporate strategy.

Business leaders increasingly face pressure from stakeholders to be transparent. There appears however little consensus on the risks and payoffs of disclosing vital information such as corporate strategy. To fill this gap, this study analyzes firm-specific determinants and organisational outcomes of voluntary disclosure of corporate strategy. Stakeholder theory and agency theory help to understand whether companies serve their interest to engage with stakeholders and overcome information asymmetries. I connect these theories and propose a comprehensive approach to measure voluntary disclosure of corporate strategy. Hypotheses from the theoretical framework are empirically tested through panel regression of data on identified determinants and outcomes and of disclosed strategy through annual reports, corporate social responsibility reports, corporate websites and corporate press releases by the 70 largest publicly listed companies in the Netherlands from 2003 through 2008. I found that industry, profitability, dual-listing status, national ranking status and listing age have significant effects on voluntary disclosure of corporate strategy. No significant effects are found for size, leverage and ownership concentration. On outcomes, I found that liquidity of stock and corporate reputation are significantly influenced by voluntary disclosure of corporate strategy. No significant effect is found for volatility of stock. My contributions to theory, methodology and empirics offers a stepping-stone for further research into understanding how companies can use transparency to manage stakeholder relations.

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1 INTRODUCTION

Many organisations poorly communicate strategy. They fail to describe in simple – let alone inspiring - terms where their organisation (or group, or country for that matter) is now, where it is going and how it should get there. Why? Is it so difficult to communicate strategy? Is it not important enough? Is it unwise to be transparent? Is there no strategy available?

Voluntary communication of corporate strategy appears not be a topic for substantial research as such (as yet), but a range of comments on this topic can be found in the massive body of knowledge on strategic management, finance, accounting and corporate communication. Literature review shows that scholars differ whether strategy can or should be communicated at all. The paradox raises the question whether it is beneficial for an organisation to communicate its strategy. Because if it is, why do organisations often seem so reluctant in communicating their strategy? And if it is not beneficial, why bother trying?

These questions triggered the writing of this dissertation, being a professional consultant and public relations executive, trying to understand the dynamics of communicating corporate strategy. Or as the topic is formulated in management research terminology: exploring determinants and organisational outcomes of voluntary disclosure of corporate strategy.

1.1 Research objective and methodology

Based on the identified gap in business practice and academic research, this section formulates the research objective, research questions and methodology of my research. A justification on the methodology is provided, followed by the pursued usefulness of this research for research and business practice.

Research objective and research questions

To fill the gap in business practice and in academic research on voluntary disclosure of corporate strategy, the research objective of this thesis is formulated as follows:

To develop understanding and provide empirical evidence that help leaders of publicly listed companies understand how voluntary disclosure of corporate strategy contributes to corporate success.

This research objective drives the following research questions:

1. What are determinants of voluntary disclosure of corporate strategy?
2. What are outcomes of voluntary disclosure of corporate strategy?

Methodology

As no earlier comprehensive research is known on voluntary disclosure of corporate strategy, literature research is conducted to construct a (preliminary) theoretical framework to identify and formulate the determinants and outcomes of voluntary disclosure of corporate strategy. The hypotheses that are based on these determinants and

outcomes are tested in a large-scale quantitative study, based on secondary data, available in the public field. The data are longitudinal, spanning a period of six years.

The research questions are answered using the following process:

- A theoretical framework is constructed to explain voluntary disclosure of corporate strategy. Literature review shows that there is no generally accepted theory that explains disclosure of valuable corporate information. Therefore, I propose stakeholder theory in combination with agency theory to identify determinants and outcomes of voluntary disclosure of corporate strategy.
- From this framework, hypotheses are developed on determinants and outcomes of voluntary disclosure of corporate strategy.
- To test these hypotheses, a research sample is identified and developed to obtain generalisable results for publicly listed companies. The sample is built from public data, produced by the 70 largest publicly listed companies in the Netherlands for the years 2003 through 2008. This sample represents over 99% of all Dutch publicly listed companies in the selected timeframe in terms of turnover as well as profit as well as assets under management as well as employees. All these companies follow International Financial Reporting Standards.
- Relevant data are found from public sources to test the hypothesised determinants size, industry, leverage, profitability, ownership concentration, listing status, listing age and the hypothesised effects on liquidity of stock, volatility of stock and corporate reputation. Voluntary disclosure of corporate strategy is measured by a thorough analysis of 10.867 press releases, 399 annual reports, 399 corporate

- websites and 399 corporate social responsibility reports that the companies in the sample published when they were listed during the selected timeframe.
- Empirical results are obtained through panel regression. With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series. Panel data analysis endows regression analysis with both a spatial and temporal dimension. The temporal dimension pertains to periodic observations of a set of variables characterizing these cross-sectional units over a particular time span.
 - Finally, the results are put in perspective in terms of contributions and limitations. Conclusions are given and suggestions for future research are provided.

Justification of the methodology

Ontologically, this study follows a realist approach. Epistemologically, this research pursues an empiricist approach. Methodologically, quantitative research is used to pursue generalizable projections based on a relatively large set of comprehensive data over a multi-year period, rather than the in-depth investigation of my research objects, for instance through case-studies. Although scholars differ on what distinguishes quantitative research from qualitative research, it is generally accepted that a major difference between qualitative and quantitative research is that qualitative research is inductive and quantitative research is deductive, requiring a hypothesis before research can begin. Another major difference between qualitative and quantitative research is that in quantitative research, the researcher is ideally an objective observer that neither participates in, nor influences what is being studied - rather than it is thought that the

researcher can learn the most about a situation by participating and/or being immersed in it. These basic underlying assumptions guide and sequence the types of data collection methods employed (Miles and Huberman, 1994; Remenyi et al., 1998).

With my research, I aim to be as objective as possible, contrasting the more subjective approach in qualitative research. Explanatory laws are pursued, rather than in-depth descriptions. My research measures what it assumes to be a static reality in hopes of developing universal laws that are replicable. This is opposed to research that is an exploration of what is assumed to be a dynamic reality. It does not claim that what is discovered in the process is universal and, thus, replicable. The main idea behind my research is to be able to separate things easily so that they can be counted and modelled statistically, to remove factors that may distract from the intent of the research.

A quantitative approach fits my research goals as a very clear idea of the object of measurement preceded the measuring itself. The result of my research is a collection of numbers, which are subjected to statistical analysis to come to results. Quantitative research is ideal for testing hypotheses, and for hard sciences trying to answer specific questions (Miles and Huberman, 1994; Remenyi et al., 1998). As this is my goal, identifying determinants and outcomes of voluntary disclosure, to help business leaders decide whether they should communicate their corporate strategy, I took a quantitative approach to fit my research objectives.

Usefulness for research and business

As for the usefulness for organisations: stakeholders of publicly listed companies can make use of this study to improve their understanding of:

1. what determinants shape the disclosure policy of a publicly listed company and in what direction;
2. how voluntary disclosure of corporate strategy benefits a company, especially through improved liquidity of stock and corporate reputation, to be balanced against perceived proprietary cost.

This dissertation contributes to the extant literature in strategic management, finance and accounting on disclosure in various ways. The contributions can be summarized as follows:

- **Theoretically:** Literature on corporate strategy offers no theoretical foundation whether corporate strategy should be communicated and if so, what its determinants and outcomes could be. I propose a framework that connects instrumental stakeholder theory with agency theory (Freeman, 1984; Hill and Jones, 1992; Jones, 1995) to identify and explain (firm-specific) determinants and organisational outcomes of voluntary disclosure of corporate strategy. I thereby extend instrumental stakeholder theory and stakeholder-agency theory in their explanatory power towards communication with stakeholders. I also extend literature on strategic management with a theoretical framework on sharing corporate strategy.
- **Methodologically:** this is the first study to extend the operationalisation of disclosed corporate strategy in annual reports, as introduced by Santema (2002) into a comprehensive framework of 22 variables that measures disclosure of corporate

strategy through websites, press releases, corporate social responsibility reports and annual reports.

- Empirically: as scientific research on disclosure primarily focuses on backward-looking financial disclosure rather than disclosure of forward-looking qualitative information, (Ferreira and Rezende (2007), my research on disclosure of corporate strategy contributes to the extant literature on (financial) disclosure. Using the newly developed theoretical and methodological framework mentioned above, determinants and organisational outcomes of voluntary disclosure of corporate strategy are hypothesized and tested, offering empirical results for a multiyear period (2003-2008) for the 70 largest publicly listed companies in the Netherlands.

The remaining sections of this introduction describe the background, relevance and scope of my research. First, the globally rising importance of corporate transparency is discussed, including differing examples of how (leaders of) Dutch publicly listed companies deal with this emerging development. This section illustrates how business leaders struggle with the increasing need to communicate. Second, as disclosure is a key concept in this research, different forms of disclosure are distinguished: voluntary versus mandatory disclosure, financial versus non-financial disclosure and quantitative versus non-quantitative disclosure. Third, it is discussed to what extent having a corporate strategy is considered relevant by various leading authors.

In the final section of the introduction, the research design and remaining structure of this dissertation is outlined.

1.2 The rising importance of corporate transparency

There is arguably no time in history when the average global citizen was more informed about himself and his environment than in the 21st century. People are more knowledgeable, critical and powerful than ever in determining what they want and how they want it. If leadership is about giving guidance, than leaders seem to have little choice in communicating to their environment what they want and how they want it. Especially since history shows that there is always enough reason to question leadership. So why is it that so often so many stakeholders of organisations openly question where their leaders are taking them?

Until recent years, firms managed to keep most things to themselves. Many American firms did not even publish annual reports until the 1930s when U.S. national legislation required them to do so. In the 21st century, sceptical and self-empowered stakeholders are taking matters into their own hands and increasingly speak up. At the 2003 annual meeting of his investment company Berkshire Hathaway, CEO Warren Buffet said: “If you can’t understand a company’s financial statement in two minutes it means that management doesn’t want you to and that they are probably hiding something” (Tapscott and Ticoll, 2003). Additionally, the scandals at Enron, WorldCom, Ahold and Parmalat at the turn of last century as well as the global credit-crisis at the end of the first decade of this century have placed the corporate governance systems of modern corporations under close scrutiny. In an attempt to develop a grounded theory of corporate disclosure, Holland (2005) interprets that dealing with choice, private disclosure, knowledge intensive intangibles, stories, benchmarking, feedback, learning, outcomes, response and

many other elements of voluntary disclosure “as tentative means to deal with a new enhanced information asymmetry” can be considered to be “at the heart of the disclosure and valuation crises observed in financial markets”. Lapses in the personal and professional integrity of accounting firms and their corporate clients have led to undermining of confidence in capital markets and to substantial erosion of trust in institutions of modern capitalism. These corporate scandals suggest that managers’ tendency to withhold bad news can be cast as a standard agency problem where managerial disclosure preferences are not aligned with those of shareholders. As a result, investors and regulators are forcing companies to improve disclosure policies (Filatotchev et al., 2006; Kothari et al., 2009). The Sarbanes-Oxley legislation of 2002 came as a reaction to the corporate scandals at the turn of the century, forming another step in a remarkable development towards more openness. In a similar vein, the Netherlands adopted a code for corporate governance, known as the “Code Tabaksblat” in 2004, shifting power to shareholders and requiring increased transparency from executives.

In this respect, Modaff and Dewine (2002) observe four major changes in organisational life that trigger new ways of communication. The first change is that managers have a larger span of control than ever before, whilst the job of supervision is getting more complicated and time consuming, leading to wider participation in decision making. A second major difference in thought about organisations is a shift from authority-based leadership towards guidance based on coaching. The third major organisational change is the use of computerized information technology, which has become a pervasive and essential ingredient of the organisation today. The fourth major change is that today an

organisation's competition is no longer regional or national but global. To be responsive to global pressures, organisations must legitimately empower their core employees (Conrad and Poole, 2002). All these developments have changed communication in and by organisations. The coaching-style demands less authoritarian messages, competition demands quick responses, various stakeholders demand different tones of voice, flattened hierarchies make that communication flows in every direction.

Pushed or pulled by authorities, globalization and the increased supply and demand of information, organisations do appear more open and sensitive toward their environments than ever before (Cheney and Christensen, 2001; Christensen, 2002; Brynjolfsson and Saunders, 2009; Meerman Scott, 2011). This process will not only lead to more communication and interactions, but also finally to a "nexus of transactions". The sphere of influence of the organisation thus becomes a dynamic space as new transactions develop and change with new partners. In the end, the key to this emerging organisational concept is managing the "transactivity" of the organisation (Coebergh et al., 2001; Jonker and Foster, 2005).

Tapscott and Ticoll coined the term "The naked corporation" (2003) as a metaphor of the seemingly inevitable necessity for corporations to become more transparent than ever. The ownership of wealth that once belonged to a privileged few is now spreading to other stakeholders through pension, mutual fund, and individual investments. The social distance between business and the people is getting smaller, especially in the Western world. Tapscott and Ticoll observe: "Customers can evaluate the worth of products and services at levels not possible before. Employees share formerly secret information about

corporate strategy, management and challenges. To collaborate effectively, companies and their business partners have no choice but to share intimate knowledge with one another.” Tapscott and Ticoll (2003) acknowledge however that “opacity is still alive and kicking”, since in some situations opacity apparently remains desirable and necessary, “for example in keeping trade secrets and personal data being properly kept confidential.” The global response of organisations to this growing need of understanding direction is expressed in what is being called corporate communication. Businesses are not limiting their communication to their products and services anymore; they move from the traditional unidirectional approach to contemporary multidirectional approaches to integrated communication. Various forces are identified that trigger organisations on a global scale to consider the risks and payoffs of disclosure of information (Prakash and Hart, 1999; Modaff and Dewine, 2002; Tapscott and Ticoll, 2003; Coebergh and Cohen, 2009; Meerman Scott, 2011):

- increased criticism and demand for information and accountability by stakeholders (consumers, authorities, etc);
- less bureaucracy that facilitates an easier flow of information;
- the information revolution that results in an increased availability of information, raises the bar of an expected minimum for individuals and organisations;
- increased competition for investors and customers through globalization.

Authors on globalization generally agree that technological development, from better transportation and carrier services to the telephone and mass media, created a smaller, more integrated world. Now, the information revolution is making the world even smaller and more integrated. Communications, trade and employment, personal and political

transactions are occurring on a global scale, in real time, ignoring boundaries between states. However, many agree that due to global economic convergence, business is moving away from localism, tradition, and parochialism. Similarly, it is expected that globalization and digitization promise not only a more efficient and effective government but a more transparent one as well (Prakash and Hart, 1999, Coebergh and Cohen, 2009). Changes have taken place in business and corporate communication theory and practice. Globalization leads to the growth of major worldwide brands, an overall decline in the number of brands and a growing flexibility and sophistication in the use of brands. Especially through branding, corporations try to express themselves since it has become difficult to differentiate through products or services: people don't buy a camera, a watch or a car: they buy a brand (Olins, 2000). Melewar and McCann (2004) suggest that corporations increasingly try to maximize effectiveness and efficiency to communicate with an increasingly large and complex environment through corporate branding. What defines it as corporate is its cohesion: the idea of people coming together and working towards a common goal (Stuart, 1999). According to Olins (2000), brands help to choose in a complex and competitive world, they offer consistency and, thirdly, empathy (for the buyers' identity), because, in the end: "nobody claims that a Burberry raincoat keeps out rain better than its competitors."

As for leaders of Dutch publicly listed corporations in the first decade of the 21st century, mixed views can be found in the media on the pros and cons of communicating corporate strategy (Coebergh and Cohen, 2009). CEO Groenink of ABN AMRO Bank stated in 2002, after two years being CEO, commenting on his unsatisfactory exposure in the

press: “What I have learned is that it is impossible to share ambitions with others in a clear, understandable way” (Lukassen and Mos, 2002). Wise or stubborn, CEO Burgmans of Unilever suggested in 2004 not to regret to intensively communicate Unilever’s (failed) corporate strategy “Path to growth” in detail in 1999: “I considered it my duty towards shareholders as we asked them permission to spend billion’s of Euros’ for restructuring” (Berentsen and Couwenbergh, 2004). Evidence that some companies fear disclosure comes from the successful Dutch (family owned) retail firm Zeeman Groep, one of the largest 200 corporations in the Netherlands and with about 1.000 outlets one of the largest chains in Europe for low-cost confection clothing. In 2006, the CEO of Zeeman Groep said to the press that they stopped publishing annual reports and financial statements since 2004, risking regulatory fines, commenting “Because of competition we do not want to provide too much public information” (Verbeek, 2006). Shortly after publication of this comment, Zeeman Groep did publish the regulatory financial statements and stated that their restrictive policy was limited to annual reports only.

The revered CEO Elverding of Dutch chemical company DSM questioned in a farewell interview whether shareholders are interested in a long-term strategy: “I have spoken to thousands of analysts, investors and fund managers, and most view the company as a cash flow. They don’t realize that big corporations require time, needing months to communicate a decision to the shop-floor and where enormous projects are needed to implement change” (Klok, 2007).

More optimistic is CEO Kleisterlee of Dutch electronic corporation Philips, arguing on a CEO conference that transparency is beneficial for corporations: “Never before has the

job of a CEO been more challenging. Never before have we been more exposed.

Transparency has taken on a whole new meaning, as the world's eyes are on our every move. Our decisions are scrutinized by shareholders, regulators, our employees, the press and others. At the same time we are under more pressure than ever to create sustainable value for our stakeholders. With that comes the imperative to communicate more, but not in the grand standing, hyped manner of some. We need more straight talk with our stakeholders, and we need to listen. Not just to our investors, but to all that have a vested interest in our companies. If we fail to create that dialogue, the void will be filled with more fear, uncertainty and doubt” (Kleisterlee, 2002).

The developments and statements put together in this introduction show that various global developments increase pressure on companies and their leaders to face the demand for transparency and to improve understanding what the risks and payoffs are of voluntary disclosure of corporate strategy. It is apparent that business leaders take very different approaches in positioning their corporate communication towards these new challenges, ranging from maximum opacity to maximum transparency. As yet, business and academic literature gives little and conflicting guidance what the risks and payoffs are for either opacity or transparency, especially concerning communication of corporate strategy. My research aims to fill this gap in the literature, thereby supporting the decision making process for business leaders to develop a sustainable policy in communicating their corporate strategy.

1.3 Forms of disclosure

Meek et al. (1995) define voluntary disclosure as involving disclosures in excess of the requirements and include accounting and other information that managers of a company deem relevant to the needs of various stakeholder groups. Such disclosures are aimed at reducing the information asymmetry among managers and investors, and provide clarifications about long-term business sustainability that concerns various stakeholder groups. Building on this definition, the following forms of disclosure can be distinguished: voluntary versus mandatory disclosure, financial versus non-financial disclosure and quantitative versus non-quantitative disclosure.

Voluntary versus mandatory disclosure

Voluntary disclosure is generally presented as a measure of self-regulation or as a response to the expectations of stakeholders and civil society for more. Mandatory disclosure results from legislation or regulation. Richard et al. (2009) observe that bottom-line results are influenced by the legal system in which a corporation functions. The Dutch legal system is code-based, but traditionally reluctant to reduce accounting flexibility through legislation (Camfferman and Cooke, 2002). Since the 1970s, influential regulation specific to publicly traded companies has been established in the United States, under the supervision of the Securities and Exchange Commission (SEC), strengthened in 2002 by the Sarbanes-Oxley law which applies to all companies listed in the American market. Disclosure is not only called for by shareholders and investors to analyze the relevance of their investments, but also by the other stakeholders, particularly for information about

corporate social and environmental policies. Disclosure for potential shareholders and investors is usually financial and mandatory, while that for other stakeholders is most often voluntary and non financial. Because of market failures and fears of competitive disadvantage, the state has an interest to create laws to make firms disclose (Nitsche and Von Hinten-Reed, 2004; Vives, 2007; de Bos et al., 2008).

Financial versus non-financial disclosure

Financial disclosure corresponds to the most standard definition of disclosure (see Stanga (1976), for one of the first definitions of this kind of disclosure, including only information relating to financial management). Financial disclosure refers to information relating to company accounts. More recent definitions include more information relating to the interests of a company's shareholders, such as stock options or managers' pay (Healy and Palepu, 2001). Non-financial disclosure is less circumscribed and therefore less closely defined. It includes information relating to the company's social and environmental responsibility as well as information relating to the firm's operating methods or to managers' health (Healy and Palepu, 2001).

Additionally, it is possible to distinguish disclosure in being either quantitative, when it is based on quantifiable elements (for example, the disclosure of managers' pay), or qualitative (for example, the company's social responsibility policies). Financial disclosure assumes a large amount of quantitative data while non-financial disclosure is mainly based on qualitative data. Nevertheless, with the increase in disclosure linked to

governance, mandatory financial disclosure increasingly includes qualitative data, for example information relating to managers' health. The focus of my research object will be on voluntary non-financial disclosure – qualitative or quantitative. An example of voluntary non-financial disclosure is the message of the CEO in an annual report, which typically evaluates corporate strategy in qualitative terms, incidentally using quantitative terminology (e.g. disclosing quantified targets on growth). This type of disclosure is quite different from the disclosed information in the financial statement in annual reports and other publications as it typically contains an analysis of the past, present and future of the company. However, most research on (voluntary or mandatory) disclosure, especially in accounting and finance literature, is focused on financial statements. Literature on voluntary non-financial disclosure is primarily been done from an impression management perspective, analyzing how companies attempt to make a certain impression on their readers or viewers (see also Santema and Van de Rijt, 2001; Santema et al., 2005).

The scope of this study is also limited culturally. The study of communication as it has developed in the United States and in Europe is thoroughly Western, strongly influenced by a vision of individualism and with a focus on language and thought (Littlejohn, 2002). Eastern thinking and theory rather tend to focus on the notion of wholeness and unity, on emotional and spiritual convergence and on intuitive insight (Kincaid, 1987). In some cultures, individuals are comfortable working without specific knowledge about tasks while in other cultures they would be very uncomfortable (Modaff and DeWine, 2002). It has been widely acknowledged that corporate communication processes have a clear

cultural embedding. Communication, in general, is governed by a set of rules that are both culturally and contextually bounded (Samovar and Porter, 1991). Low context-cultures, such as the Western culture, are likely to appreciate a larger extent of disclosure, as the message is more important than the context and the physical appearance. These differences are to be considered whenever international research in communications is studied. For example Higgins (1996) found that U.S. and European executives display a more positive attitude toward open, specific and timely communications than their Japanese counterparts. But strong differences also are present within low context-cultures: Ulijn et al. (2000) showed that readers from French and Dutch business letters (when both translated into English) recognized substantial differences in structure and were likely to prefer the letters that were originally written in their mother tongue.

1.4 The relevance of having a strategy

Whether corporate strategy as such is a valuable economic good is not undisputed in academic literature. According to Grant (2010), strategic management is still a young field, lacking an agreed, internally consistent, empirically validated body of theory, drawing widely from economics, psychology, sociology and biology (Grant, 2010).

Unlike more technically oriented managerial disciplines, such as finance, operations research or production management, strategy analysis does not generate solutions to problems that can be calculated in scheduling algorithms or net present values.

Rumelt et al. (1991) perceive strategic management, or terms like “policy” or just “strategy”, being about the direction of organisations, and most often, business firms. In this approach, it includes those subjects that are of primary concern to senior management, or to anyone seeking reasons for the success and failure among organisations. Firms, if not all organisations, are in competition; competition for factor inputs, competition for customers, and ultimately, competition for revenues that cover the costs of their chosen manner of surviving. Firms have choices to make if they are to survive. Those which are strategic include: the selection of goals, the choice of products and services to offer; the design and configuration of policies determining how the firm positions itself to compete in product-markets; the choice of an appropriate level of scope and diversity; and the design of organisation structure, administrative systems and policies used to define and coordinate work. It is a basic proposition of the strategy field that these choices have critical influence on the success or failure of the enterprise, and, that they must be integrated. It is the integration (or reinforcing pattern) among these choices that makes the set a strategy (Rumelt et al., 1991).

Eisenberg and Goodall (2004) assert that success begins with strategy, but they observe, “Despite the importance of strategy, few organisations actually have one.” Also Porter notes, quoted in an interview: “Companies have bought into an extraordinary number of flawed or simplistic ideas about competition ... As a result, many have abandoned strategy almost completely” (Hammonds, 2001). Mankins and Steele (2005) note, “At most companies, strategy is a highly abstract concept, often confused with vision or aspiration, and is not something that can be easily communicated or translated into action.”

Analyzing business strategies of Dutch firms in the twentieth century, Sluyterman (2005) finds that although leaders seemingly put a lot of time and effort in developing a corporate strategy, in practice they follow the crowd or a fashionable ideology. The “fashion” to create conglomerates in the 1960s and 1970s as well as the trend to grow through mergers and acquisitions in the 1980s and 1990s resulted in a series of corporate disasters. Execution of strategy often failed because circumstances forced companies to create flexible alternatives, especially because the small open economy of the Netherlands is highly sensitive for dynamic global developments. However, the Dutch economy proved to be one of the most successful economies in the world during the last century, notably because of its traditional ability to deal with international opportunities (Sluyterman, 2005).

To date, there is no agreement in literature on the contribution of strategy on performance. Some authors (Miller and Cardinal, 1994; Hopkins and Hopkins, 1997) find strategic planning positively affects firm performance, while others (Mintzberg et al., 2005) observe that planning does not generally benefit performance. Several authors

(Wrapp, 1967; Eisenberg, 1984; Weick, 1995) suggest that strategy absence need not be associated with organisational failure. Deliberate building-in of strategy absence may promote flexibility in an organisation; organisations with tight controls, high reliance on formalized procedures, and a passion for consistency may lose the ability to experiment and innovate. However, leading authors in strategic management theory contend that corporate strategy is key to corporate success (Peters and Waterman, 1982; Porter, 1980, 1985, 1996; Collins and Porras, 1994; Collins, 2001; Mintzberg et al., 2005).

Efforts to synthesize differing ideas on the contribution of strategy into coherent frameworks have resulted in two highly differing dominant theories in the strategy literature to explain why some firms perform in a superior manner and, consequently, are associated with higher value (Makhija, 2003). The first is based on industrial organisational economics, and takes an external market orientation to address this issue. This perspective, referred to as the market-based view of the firm, typically stresses privileged end-product market positions as a basis for above-normal future returns and thus higher current firm value (Porter, 1980, 1985). In this perspective, competitive advantage is due to barriers to competition arising from the structure of the market. Porter (1980) defines competitive strategy as being a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out those goals. In contrast with the market-based view is the resource-based view of the firm, which focuses inwardly on the firm's resources and capabilities to explain firm profitability and value. According to the resource-based view, competitive advantage is

provided by distinctive, valuable firm-level resources that competitors are unable to reproduce (Pfeffer and Salancik, 1978; Barney, 1986, 1991).

In both the market-based and the resource-based view of the firm, having a distinctive way of approaching the market is considered fundamental for organisational success. I follow this essential notion, assessing that corporate strategy is an important resource and means for corporate success, which therefore has substantial relevance for stakeholders to be familiar with. How the market-based and the resource-based view of the firm are integrated into an operationalised description of corporate strategy is described in paragraph 4.1: “Measuring voluntary disclosure of corporate strategy”.

1.5 Thesis structure

After the introduction, outlining the goals and relevance of my research, the remainder of this thesis is structured as follows.

Chapter 2 gives an overview what academic and business literature in various disciplines offers on what might explain voluntary disclosure of corporate strategy. Stakeholder theory and agency theory are explored in further detail as they provide promising arguments to identify potential determinants and outcomes of voluntary disclosure of corporate strategy. From these theories, a theoretical framework for my research is constructed, using voluntary disclosure of corporate strategy as an instrument for corporations to serve their interests.

Chapter 3 identifies potential determinants and outcomes of voluntary disclosure, based on the theoretical framework that is developed in chapter 2. Firm characteristics, stakeholder theory and agency theory offer arguments to suggest that size, industry, leverage, profitability, ownership concentration, listing status and listing age are associated with voluntary disclosure of corporate strategy. Stakeholder theory and agency theory also suggest that disclosure influences cost of capital through engagement with stakeholders and controlled information asymmetries among principals and agents respectively. Cost of capital is typically being proxied by liquidity and volatility of stock, hypothesised as outcomes of voluntary disclosure of corporate strategy. Additionally, stakeholder theory and related studies in legitimacy theory and reputation theory, suggest that corporate reputation is an outcome of voluntary disclosure of corporate strategy. These potential benefits can be expected to be balanced against potential cost of disclosure that literature identifies: production cost, litigation cost and proprietary cost.

Chapter 4 describes how proxies are developed for voluntary disclosure of corporate strategy, for determinants and for organizational outcomes of voluntary disclosure of corporate strategy respectively, in order to allow usage for panel regression to obtain generalisable empirical evidence.

Chapter 5 offers the results and discussion of the panel regression of determinants and outcomes of voluntary disclosure of corporate strategy.

Chapter 6 puts my research in perspective by assessing its contributions and limitations. Suggestions for future research are given and overall conclusions complete this chapter.

2 THEORETICAL FRAMEWORK

Traditionally, textbooks on either corporate strategy or on corporate communication mention very little on what they could have in common: communication of corporate strategy. As Forman and Argenti (2005) put it: “Although an entire discipline is devoted to the study of organisational strategy, including strategy implementation, little attention has been given to the links between communication and strategy.” In addition, most financial reporting textbooks focus on mandatory financial reporting and provide little, if any, coverage on important voluntary disclosures (Hirst et al., 2008).

Textbooks on corporate strategy typically make reference on how strategy is formulated and formatted, how key elements like structure, systems, culture and power can be understood and what managerial styles are optional (e.g. Mintzberg et al., 2002; Wit and Meyer, 2010), leaving communication (or sales and marketing for that matter) of corporate strategy largely for granted. However, the importance of communicating corporate strategy is increasingly acknowledged in leading textbooks in the first decades of the 21st century. Johnson and Scholes (2008) note in the 8th edition of their textbook for the first time that: “Deciding strategy is only one step: strategic decisions need to be communicated. Managers have to consider which stakeholders to inform and how they should tailor their messages to each stakeholder. Shareholders, key customers and employees are likely to be particularly central, all with different needs.” Johnson and Scholes (2008) unequivocally state that “Unless people understand the strategy, then it is unlikely to be implemented.” Grant (2010) observes in the 7th edition of his textbook for the first time that “most companies – public companies in particular – see value in communicating their strategy to employees, customers, investors, and business partners –

and, inevitably, to the public at large.” Grant (2010) concludes that “the greatest challenge of managing an organisation is coordinating the actions of different organisational members” whereby strategy can “promote coordination in several ways”, functioning as “a communication device.”

Underpinning the emerging acceptance in leading textbooks that communication of corporate strategy matters, business and academic literature identified two key arguments:

- leaders of organisations, by nature, need to give direction to their organisation, especially during times of change;
- competitive advantage of organisations increasingly comes more from the intangible knowledge, capabilities, and relationships created of employees than from physical assets and access to capital.

Leaders need to communicate direction

In academic and business literature on leadership, management and corporate strategy, various leading authors have delivered arguments why communication of corporate strategy appears to be relevant. Porter (1980) mentions that unequivocal communication of the firm’s resources and intentions is “a form of establishing commitment, perhaps the single most important concept in planning and executing offensive or defensive competitive moves.” Porter suggests that communicating strategy is a core responsibility of leaders: “A leader ... has to make sure that everyone understands the strategy. Strategy used to be thought of as some mystical vision that only the people at the top understood. But that violated the most fundamental purpose of a strategy, which is to inform each of

the many thousands of things that get done in an organisation every day, and to make sure that those things are all aligned in the same basic direction. The best CEO's I know are teachers, and at the core of what they teach is strategy. They go out to employees, to suppliers, and to customers and they repeat: "This is what we stand for, this is what we stand for." So everyone understands it" (Hammonds, 2001). This 21st century view echoes how Drucker (1954) defined management almost half a century earlier: "The function which distinguishes the manager above all others is his educational one. The one contribution he is uniquely expected to make is to give others vision and ability to perform." This notion resonated earlier writing of Chester Barnard (1938) on the functions of the executive: "The essential functions are, first, to provide the system of communications; second, to promote the securing of essential efforts; and, third, to formulate and define purpose." Barnard (1938) stated that "An organisation comes into being when: there are persons able to communicate with one another, who are willing to contribute action, to accomplish a common purpose." Barnard (1938) sees communication as the means by which organisation is accomplished: cooperation and a sense of common purpose are literally created through communication: "Obviously a common purpose must be commonly known, and to be known must be in some way communicated." As management-icon Jack Welch (2005) put it: "Leaders make sure people not only see the vision, they live and breathe it...No vision is worth the paper it's printed on unless it is communicated constantly." Business-leaders, according to Welch (2005) "give people a clear sense of the direction to profitability and the inspiration to feel they are part of something big and important", and they "establish trust with candor, transparency and credit."

More specifically, communication is increasingly thought to be crucial regarding strategic change, defined as an alteration in an organisation's alignment with its external environment (Van de Ven and Poole, 1995; Rajagopalan and Spreitzer, 1996; Kotter, 1996). This includes one of the challenges of strategic change: dealing with corporate culture, which influences managers' perceptions and motivations (Barney, 1986; Dutton and Penner, 1992). Next to culture, corporate identity affects how managers both interpret and react to environmental circumstances (Meyer, 1982). Both cultural values and a strong sense of identity therefore guide managers, not only in defining what their firms stand for, but in justifying their strategies for interacting with key stakeholders (Porac and Thomas, 1990). Thick cultures homogenize perceptions inside a firm and so increase the likelihood that managers will make more consistent self-presentations to external observers. By creating focal principles, that is, general understanding of the right way of doing things in a firm, thick cultures contribute to the consistency of firms' images with stakeholders (Camerer and Vepsalainen, 1988).

An important implication of this cognitive perspective is that the success of strategic change will depend not only on an organisation's ability to implement new structures and processes, but also on the organisation's ability to convey the new mission and priorities to its many stakeholders (Smircich, 1983; Gioia and Chittipeddi, 1991, Reger et al., 1994). Higgins (1996) finds that the more strategic options a company seems to have, or the greater the need for strategic change seems to be, the more stakeholders consider the benefits of communicating corporate strategy to be viable.

Many researchers point on how managerial cognitions and "sense making" processes affect the likelihood and content of strategic change (e.g. Reger et al., 1994). Collins and

Porras (1994) researched the underlying principles that could yield enduring, great companies and found that “the fundamental distinguishing characteristic of the most enduring and successful corporations is that they preserve a cherished core ideology while simultaneously stimulating progress and change in everything that is not part of their core ideology.” In addition, Collins and Porras (1994) state that transparency adds to a firm strategy: “And by being very clear about what should never change, they are better able to stimulate change and progress in everything else.” Kotter (1996) considers “communicating the change vision” one of eight crucial steps to realize change. Discussing winning cultures, Welch (2005) promotes candor as key to success, stating, “Candor gets idea rich, generates speed and cuts cost.”

Valuing strategy as an (intangible) asset

Analyzing the mechanics of disclosure, this study focuses on the increased relevance of non-financial information, focussing on the determinants and organisational outcomes of voluntary disclosure of corporate strategy. The upcoming relevance of this type of information has increasingly been subject to scientific research during the last decades. Conglomerate complexity, internationalization and global reputation make that earnings may not fully reflect a firm's true value, and that companies therefore should communicate more than just basic financial information (Schadewitz and Blevins, 1997). Since the 1990s, intangible assets like brand, goodwill or reputation are increasingly accepted as having real financial value. An indication of this development is given by calculating the difference of the net asset value of virtually any Fortune 500 company with its market capitalization: the gap between the two is presumably the (significant)

value of its intangible assets (Olins, 2000). Also since the 1990's, the usefulness of conventional measures of financial performance, such as earnings and book value per share, have increasingly been called into question, most notably by Kaplan and Norton (1992), introducing the balanced scorecard. Since traditional accounting figures have limited value in helping investors assessing future earnings, companies increasingly invest in other ways to communicate the value of the company, for instance through forward looking statements, of which corporate strategy is an example.

From both an internal and external perspective, Kaplan and Norton (2001) find that most of today's organisations operate through decentralized business units and teams that are much closer to the customer than large corporate staffs. As a consequence, these organisations are thought to recognize that competitive advantage comes more from the intangible knowledge, capabilities, and relationships created by employees than from investments in physical assets and access to capital. Strategy implementation therefore requires that all business units, support units, and employees be aligned and linked to the strategy. Kaplan and Norton (1992, 2001) defend a clear link between an overarching vision and specifically mentioned critical success factors and critical measurements to stimulate the vision is broadly understood and followed.

Kaplan and Norton (2001) conclude that "With the rapid changes in technology, competition and regulations, the formulation and implementation of strategy must become a continual and participative process. Organisations today need a language for communicating strategy as well as processes and systems that help them to implement strategy and gain feedback about their strategy. Success comes from having strategy

become everyone's everyday job." To this point, there is increasing research on the importance of company-internal variables for explaining performance (Kangis and Williams, 2000). Kaplan and Norton (2004) even label intangible assets as the ultimate source of sustainable value creation. The problem with this point of view lies in the lack of empirical evidence (Stanton et al., 2004; Vives, 2007; Coff et al., 2008).

Altogether, popular academic and business writers increasingly acknowledge through their work that communicating corporate strategy makes business sense. However, none of these writers elaborate on this assumption. No guidelines are given on determinants and outcomes of communicating corporate strategy, and no theoretical ground is offered that explains communication of corporate strategy. In the following sections, I aim to fill this gap by combining elements of stakeholder theory and agency theory, adding voluntary disclosure of corporate strategy as an instrument that can generate beneficial organisational outcomes that can be explained by these theories.

2.1 Connecting theories

In spite of the apparent increased recognition of the importance of communication of corporate strategy as described in the previous section, there does not exist a (generally accepted) comprehensive framework to understand the dynamics of communicating corporate strategy - or voluntary disclosure of non-financial strategic information. In this research it is therefore attempted to connect academic contributions from stakeholder theory and agency theory to this understanding that touch upon my research questions.

In search of theories that have powerful explanatory power for voluntary disclosure, stakeholder theory (Freeman, 1984; Freeman et al., 2010) arguably offers the most compelling arguments for organisations to be transparent to a wide audience, being a variety of stakeholders. Work in stakeholder theory has influenced the business disciplines of finance, accounting, marketing, and management (Buchheit et al., 2002), with theories and methods associated with the four business areas tending to overlap (Biehl et al., 2006). This is especially evident in the fields of accounting and finance, where many journals publish work from both disciplines. Although finance scholars traditionally ignore the moral foundation of stakeholder theory (except as it relates to the obligation of a firm to its shareholders and other financiers), most recognize the importance of stakeholders in providing high financial returns consistent with an instrumental stakeholder perspective (Freeman et al., 2010). In general however, stakeholder theory has gained little attention in the accounting literature and education, as an analysis of twenty-one introductory accounting textbooks demonstrated that the

interests of shareholders are predominant and that other theoretical perspectives are given scant attention (Ferguson et al., 2000).

A central issue in finance literature is whether managing for stakeholders improves profits (Smith, 2003), typically assuming that satisfying a broad group of stakeholders is inconsistent with the idea of shareholder wealth maximization.

My research on voluntary disclosure of corporate strategy is partly built on stakeholder theory and a few theories that are closely linked to this body of knowledge: instrumental stakeholder theory (Jones, 1995), stakeholder-agency theory (Hill and Jones, 1992) and legitimacy theory (Suchman, 1995). These theories offer compelling insight to incentives for companies to voluntarily disclose corporate strategy.

However, as with academic literature on strategic management or on communication theory, textbooks and scholarly articles on stakeholder theory and related theories do not explore voluntary disclosure as a powerful instrument for stakeholder management. To fill this gap, a research model is created to test whether stakeholder theory indeed has explanatory power for voluntary disclosure of corporate strategy.

To create this research model, key elements of agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989; Cooke, 1989) are used in conjunction with stakeholder theory to understand how companies deal with (presumably) valuable information like corporate strategy and test what the determinants and (organisational) outcomes of voluntary disclosure of corporate strategy are.

These theories are quite different in history and focus but at the same time they are complementary and are even integrated by some scholars (Hill and Jones, 1992). Both theories analyse conflicts and collaborations among interest groups, being either

principals versus agents (agency theory) or the organisation in its wider societal context (stakeholder theory):

- Agency theory offers specific insights in the cost and distribution of valuable information (such as corporate strategy) and the outcomes on the stock exchange, whereas stakeholder theory offers specific insights in the interaction of an organisation with society as a whole and its effects – not just on the stock exchange but also for instance in terms of corporate reputation.
- Stakeholder theory adds value for an organisation where principals and agents might have limited or no conflicts amongst each other, but at the same time might forget about stakeholder interests in a broader context and risk keeping a license to operate. Agency theory adds value for an organisation that faces issues concerning information asymmetries among principals and agents.

The key elements of both theories for this research are given below:

Table 2.1: Key elements of stakeholder theory and agency theory

<i>Key elements</i>	<i>Stakeholder theory</i>	<i>Agency theory</i>
<i>Focus</i>	The organisation and those groups without whose support the organisation would cease to exist.(*)	Principals (shareholders) and agents (executives)
<i>Key idea</i>	Organisations need sustainable support from all stakeholders	Conflicts of interests between principals and agents influence (the organisation of) information(-asymmetries) and risk-bearing costs
<i>Proposed function of voluntary disclosure of corporate strategy in this study</i>	Instrument to engage with stakeholders	Instrument to reduce information asymmetries.
<i>Use for business leaders</i>	Improved economic performance through engagement with stakeholders	Reduced adverse selection through reduced information asymmetries.

The following paragraphs will elaborate on both theories in their relation to disclosure as either an instrument of engagement or to reduce information asymmetries.

2.2 Stakeholder theory

Stakeholder theory is fundamentally a theory about how business works at its best, and how it could work (Freeman et al., 2010). It is descriptive, prescriptive, and instrumental at the same time, and it is managerial (Donaldson and Preston, 1995). Stakeholder theory is about value creation and trade and how to manage a business effectively. “Effective” can be seen as “create as much value as possible” (Freeman et al., 2010). If stakeholder theory is to solve the problem of value creation and trade, it must show how business can in fact be described through stakeholder relationships.

Freeman et al. (2010) acknowledge that stakeholder theory, that they are happy to label as a “framework”, has been criticised as not really being a theory because theories are connected sets of testable propositions. Freeman et al. (2010) propose to think of stakeholder theory as “a genre of management theory”, taking a “philosophical pragmatist” approach. A clear definition of stakeholder management is essential to understanding the empirical evidence that does or does not provide support for the idea that managing for stakeholders is related to financial performance. There are multiple interpretations of stakeholder management in the empirical literature (Freeman et al, 2010). For the purposes of my research, I follow the definition of Preston and Sapienza (1990), based on the concepts of Freeman (1984), defining stakeholder management as “the proposition that business corporations can and should serve the interests of multiple stakeholders.”

Stakeholder management scholars typically suggest that the organisation’s survival and success depend upon the ability of the organisation to manage valuable relationships with

its stakeholders (Freeman, 1984; Jones, 1995; Donaldson and Preston, 1995; Hillman and Keim, 2001). Freeman (1984) asserts that organisations with high stakeholder management capability actually involve multiple stakeholders on critical issues and seek voluntary agreements. Freeman (1984) is one of the few strategic management authors who suggest that corporate communication managers should take responsibility for strategically managing stakeholders. “Stakeholders” is an overarching term comprehending two groups of people that are considered essential in managing favourable relations (Oliver, 1991; Clarkson, 1995; Mitchell et al., 1995; Donaldson and Preston, 1995): people without whose help a company cannot survive (e.g. shareholders, suppliers, customers, employees) and people who are not essential for an organisation’s resources but can nevertheless assert enormous institutional pressures on the company which may hamper their organisational performance (e.g. the media, governmental agencies, the general public). The stakeholder theory suggests that an organisation’s management is expected to take on activities expected by those identifiable groups or individuals who can affect and who are affected by the achievement of an organisation’s objectives. This implies that stakeholders have an interest to assess (disclosed) corporate strategy of an organisation, taking corporate strategy as the essential summary of how an organisation can or might affect stakeholders. I explore this theoretical assumption in my research by analyzing to what extent (Dutch publicly listed) organisations invest in disclosing information that affects stakeholders, as far as it is publicly communicated as corporate strategy.

2.2.1 Focus on economic performance: instrumental stakeholder theory

The dominant literature on corporate strategy reinforces economic theory upon which much of the field of strategic management is based (e.g. Schendel and Hofer, 1979; Porter, 1980; Andrews, 1980). The primary, and to some scholars the only, important dependent variable is economic performance. The resource-based approach (Barney, 1991), with its emphasis on developing competitive advantage to enhance the creation of economic rents, reinforced the attention in strategic management literature on economic performance as the most dependent variable.

Freeman et al. (2010) observe that because of the focus on economic performance in strategic management literature, “Stakeholder approach has struggled for broad acceptance in the field of strategic management. The only way to convince many strategic scholars of the importance of stakeholder theory is to demonstrate a strong positive link between following its precepts and economic performance, measured in traditional terms. To respond to this apparent need to convince related fields of theory, scholars in stakeholder theory increasingly identify arguments why stakeholder management should be associated with higher financial performance (Jones, 1995; Post et al., 2002). Some researchers have argued that responsible stakeholder treatments can help a firm to avoid value-destroying outcomes associated with stakeholder actions such as legal suits, adverse regulation, consumer boycotts, strikes, walkouts, and bad press, in order to optimize the company’s stability, risk reduction and future cash flows (Cornell and Shapiro, 1987; Wang et al., 2003). Several empirical studies have added support for the idea that stakeholder management leads to higher levels of organisational

performance, looking for instance at companies that actively research stakeholders interests (Kotter and Heskett, 1992; Greenley and Foxall, 1997; Hillman and Keim, 2001)

Although stakeholder theory is not only oriented towards economic performance, and according to many scholars it shouldn't limit itself to this as well but also further develop the descriptive and prescriptive or normative elements (Donaldson and Preston, 1995), I will limit myself in this study on the instrumental stakeholder perspective, as developed by Jones (1995). The focus of the instrumental theory of stakeholder management is the contract as a metaphor for the relationships between the firm and its various stakeholder groups. The firm is expected to gain competitive advantage if it is able to develop relationships with its stakeholders based on mutual trust and cooperation. Implicit in this theory is the notion that the problems of opportunism and a lack of trust and cooperation are real problems in firm/stakeholder relations such that instrumental conclusions are appropriate (Jones, 1995).

The instrumental stakeholder perspective is intended to strengthen the case for using the stakeholder model as a central paradigm for the business and society field. The theory is built on an integration of the stakeholder concept, economic concepts (including agency theory), insights from behavioural science, and ethics. It focuses on the contracts (relationships) between the firm and its stakeholders and posits that trusting and cooperative relationships help solve problems related to opportunism. Because the costs of opportunism and of preventing or reducing opportunism are significant, firms that contract on the basis of trust and cooperation will have a competitive advantage over those that do not use such criteria. This instrumental theory of stakeholder management

essentially turns the neoclassical theory of the firm upside down. It implies that behaviour that is trusting, trustworthy, and cooperative, not opportunistic, will give the firm a competitive advantage. In the process, it may help explain why certain "irrational" or altruistic behaviours turn out to be productive and why firms that engage in these behaviours survive and often thrive (Jones, 1995).

As for the contribution of stakeholder management to corporate performance, Jonker and Foster (2005) note that "The effect of stakeholder relationships on the ongoing success of organisations is now well recognised and generally accepted by most scholars, even by many who subscribe to the neo-classical, Friedmanite view of the firm." Scholars have recognised that even if the primary *raison d'être* of a firm is to serve its shareholders, its success in doing so is likely to be affected by stakeholders of one form or another (Jonker and Foster, 2005).

Within stakeholder theory, instrumental stakeholder theory offers the most promising building block to explain voluntary disclosure of corporate strategy as it connects stakeholder management with economic theory and economic performance, the areas of research by which corporate strategy as such typically is explained.

2.2.2 Linking stakeholders and reputation: legitimacy theory

In line with stakeholder theory, suggesting that the welfare of an organisation depends on acceptance by stakeholders, “Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995). At its simplest, within the organisational view “legitimacy [is] an operational resource ... that organisations extract - often competitively - from their cultural environments and that they employ in pursuit of their goals” (Suchman, 1995).

Since an organisation’s survival over time often depends on its conforming to normative expectations rather than simply operating with greater efficiency (Oliver, 1991), the importance of ensuring both understanding and acceptance of new strategies among key constituents is a central element of the legitimacy imperative for organisations.

Legitimacy theory is used to examine how firms gain legitimacy and cultural support within their institutional contexts to build their reputations (Staw and Epstein, 2000; Deephouse and Carter, 2005). To be seen as legitimate, firms must take actions within their institutional contexts. Scott (1995) indicates that, in order to survive, organisations must conform to the rules and belief systems prevailing in the environment (DiMaggio and Powell, 1983), because institutional isomorphism, both structural and procedural, will earn the organisation legitimacy (Suchman, 1995; Dacin et al., 2002). Drawing on Pfeffer’s (1981) argument that one of the key tasks of management is to “provide explanations, rationalizations, and legitimation for the activities undertaken in the organisation”, literature on legitimacy has examined the ways in which organisations aim

to restore legitimacy after controversial events, ward off stigma, or otherwise protect themselves from negative events (Fiss and Zajac, 2006).

Legitimacy theory builds on organisational theory, focussing on the steps that organisations take to ensure their continued legitimacy (e.g. Dowling and Pfeffer, 1975; Suchman, 1995) and institutional theory, explaining corporate behavior and disclosure practice (Oliver, 1991).

Hybels (1995) argues that good models in legitimacy theory must examine the relevant stakeholders, and how each influences the flow of resources crucial to the organisations' establishment, growth, and survival, either through direct control or by the communication of good will. Legitimacy, just like money, can therefore be considered to be a resource a business requires in order to operate. Certain actions and events increase that legitimacy, and others decrease it. Low legitimacy will have particularly dire consequences for an organisation, which could ultimately lead to the forfeiture of their right to operate.

Research suggests that disclosure can either be establishing, maintaining, extending or defending legitimacy (Ashford and Gibbs, 1990). In line with legitimacy theory, contingency theory suggests that communicating with stakeholders is in the interest of an organisation. Thompson (1967) stated that organisations must not only perform their missions successfully, they must also use "appropriate language" to convince important environmental elements that they are fit for future action. Consistent with contingency theory, the processes by which this communication is achieved should be shaped by the nature of the environment. It is argued that organisations may be able to influence their

environments largely by controlling networks of communication as an essentially strategic action (Dirsmith and Covaleski, 1983).

According to legitimacy theory, keeping investors informed of the company's on-going situation when they are not going to meet filing requirements might maintain or enhance the legitimacy of the firms. Legitimacy theory, as described by Preston and Post (1975), suggests that disclosures are carried out in response to the changing perceptions of corporate and fiduciary communities. Dowling and Pfeffer (1975) suggested that organisations could enhance their legitimacy through the use of symbolic communication. Cowen et al. (1987) suggested that a company might attempt to manage external perceptions of corporate legitimacy through numerous disclosures of trivial information and activities. For example, organisations can use press releases, annual reports, other corporate documents, and company websites as legitimizing tactics to affect internal and external stakeholders' perceptions of the firm (Aerts, 2005).

Lightstone and Driscoll (2008) therefore expect companies to use voluntary disclosure to manage their organisational legitimacy.

In sum, legitimacy theory extends stakeholder theory by acknowledging that communication with stakeholders adds to sustainable acceptance of an organisation by stakeholders, which can become apparent through its corporate reputation.

2.3 Agency theory

Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), which performs that work (Jensen and Meckling, 1976; Eisenhardt, 1989; Cooke, 1989). Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when the desires or goals of the principal and agent conflict and, secondly, when it is difficult or expensive for the principle to verify what the agent is actually doing.

Agency theory questions why managers voluntarily disclose information. Managers, in the knowledge that shareholders will seek to control their behaviour through bonding and monitoring activities, may have an incentive to try and convince shareholders they are acting optimally and disclosure may be a means of achieving this. Agency theory reinforces the idea that shareholder interests have a pre-eminent position over the interests of other stakeholders by envisioning managers primarily as agents for the shareholders, with the responsibility of looking after their interests (Jensen and Meckling, 1976; Fama, 1980).

Information and incentive problems that are touched upon by agency theorists impede the efficient allocation of resources in a capital market economy. Disclosure and the institutions created to facilitate credible disclosure between managers and investors play an important role in mitigating these problems (Healy and Palepu, 2001). Agency theory fosters the disclosure of corporate information as a way to control managers' actions and align incentives for managers and owners. In a corporation, the agency problem caused

by the separation of ownership from management has long been of concern. Management can exploit the information asymmetry to act in a manner that is contrary to the interests of shareholders. One method of mitigating the agency problem is to reduce information asymmetry between management and shareholders.

Information asymmetries oppose on the one hand those who are commonly called insiders: managers and majority shareholders, and on the other hand the outsiders: minority shareholders, creditors, and other stakeholders. One could also include the regulatory authorities among these outsiders, and information professionals - the rating agencies and financial analysts. As part of a separation between the ownership of capital and oversight, information asymmetries pose the problem of the ex post oversight by shareholders of the choice of managers. The response provided by the traditional literature relating to corporate governance was the definition and implementation of incentive contracts. These were supposed to solve the following two problems: first, the cost of perfect information and, second, the inability of shareholders to process information correctly (which is the major reason for delegating power). However, incentive mechanisms, whose objectives are to make manager's interests coincide with those of shareholders, have shown their pernicious effects (Shleifer and Vishny, 1997; Farvaque et al., 2009). Since the 1990s and the first decade of the 21st century, then, the solution to the problem of information asymmetry seems to be disclosure, supported by an apparent consensus between the academic literature, economic actors, public authorities and the media. Disclosure, whether voluntary or mandatory, would have the virtue of reducing information asymmetries and of allowing effective oversight of

managers, and (re-)establishing good governance. A rich literature about the advantages of disclosure, both for firms' shareholders and the economy as a whole, has flourished since the 1990s. However, very quickly, and particularly following the Sarbanes-Oxley Act, the disadvantages of regulation that is over restrictive in terms of information disclosure came to light. The costs of establishing disclosure, and the pernicious effects of it, have increasingly been highlighted by a revival of the literature on the subject (Farvaque et al., 2009). However, no research as yet has analysed what this all means for disclosure of corporate strategy, which is the object of this thesis.

2.3.1 Avoiding adverse selection

An important problem caused by information asymmetry is adverse selection. A classic paper on adverse selection is Akerlof's "The Market for Lemons" (1970), noticing that, in a "market for lemons", the average value of the commodity tends to go down, even for those of perfectly good quality. Because of information asymmetry, unscrupulous sellers can "spooft" items and defraud the buyer. As a result, many people not willing to risk getting ripped off will avoid certain types of purchases, or will not spend as much for a given item. It is even possible for the market to decay to the point of nonexistence. Healy and Palepu (2001) translate Akerlof's lemons problem for the stock market by considering a situation where half the business ideas are "good" and the other half are "bad". Both investors and entrepreneurs are rational and value investments conditional on their own information. If investors cannot distinguish between the two types of business ideas, entrepreneurs with "bad" ideas will try to claim that their ideas are as valuable as the "good" ideas. Realizing this possibility, investors will value both good and bad ideas at an average level. Therefore, if the lemons problem is not fully resolved, the capital market will rationally undervalue some good ideas and overvalue some bad ideas relative to the information available to entrepreneurs.

Akerlof (1970) discusses two primary solutions to the lemons problem: signalling and screening. Both theoretical solutions suggest that voluntary disclosure of valuable information is in the best interest of organisations in a competitive environment.

Stiglitz (1975) pioneered the theory of screening. In this way the under informed party can induce the other party to reveal their information. They can provide a menu of choices in such a way that the choice depends on the private information of the other

party. Examples of situations where the seller usually has better information than the buyer are numerous but include used-car salespeople, mortgage brokers and loan originators, stockbrokers, Realtors, real estate agents, and life insurance transactions. Examples of situations where the buyer usually has better information than the seller include estate sales as specified in a last will and testament, or sales of old art pieces without prior professional assessment of their value. This situation was first described by Arrow (1963). In sum, the notion of adverse selection is important for companies in deciding on their disclosure policy as uninformed investors “price protect” against adverse selection, which can become manifest through market liquidity (Welker, 1995).

2.3.2 Dealing with information asymmetry: agency and signalling theory

Closely related with agency theory, if not overlapping (Watson et al., 2002) is signalling theory, focussing on motives to overcome information asymmetry. Signalling theory concerns the study of the signals of sellers that influence the market price of a good or service. It has been applied to many areas, including financial markets, advertising and public relations (Marcus and Goodman, 1991). According to signalling theory, the disclosure of corporate information can be considered as a signal to capital markets, sent to decrease the asymmetry of information which often exists between managers and other individuals, to optimise financing costs and to increase corporate value. Agency and signalling theories are quite interrelated as both are based on the existence of asymmetries between the information available to managers and investors respectively. Therefore, the mechanisms used for controlling managers may serve as signals to markets and a way of reporting good management by executives. Both theories provide companies with incentives to divulge information.

In his seminal article, Spence (1973) proposed that two parties could get around the problem of asymmetric information by having one party send a signal that would reveal some piece of relevant information to the other party. That party would then interpret the signal and adjust her purchasing behaviour accordingly - usually by offering a higher price than if she had not received the signal. There are, of course, many problems that these parties would immediately run into: how much time, energy, or money should the sender (agent) spend on sending the signal? How can the receiver (the principal, who is usually the buyer in the transaction) trust the signal to be an honest declaration of information? Assuming there is a signalling equilibrium under which the sender signals

honestly and the receiver trusts that information, under what circumstances will that equilibrium break down?

Porter (1980) applied signalling theory to business strategy by stating: “It should be clear that an entire competitive battle can be waged through announcements before a single dollar of resources is expended.” Porter suggests that the appropriateness of a competitive strategy can be determined by testing the proposed goals and policies for consistency, amongst others on issues of communication and implementation. Communicating corporate strategy is in this view comparable with making a statement toward competition. These and other “types of market signals” can have two fundamentally different functions according to Porter: they can be truthful indications of a competitor’s motives, intentions or goals or they can be bluffs.

Whether disclosure signals function as a stimulus or threat for competition remains under debate. Verrecchia (1983) theorizes that market competition may provide disincentives for voluntary disclosure through increased proprietary costs. Wagenhofer (1990) suggests that corporations balance disclosure between maximizing the market price of the firm versus not stimulating market entry by a competitor and imposing political costs.

Alternatively, Darrough and Stoughton (1990) suggest that competition through threat of product market entry encourages voluntary disclosure. Also Clinch and Verrecchia (1997) suggest that when competition increases, disclosure decreases.

In sum, signalling theory extends agency theory by appreciating that disclosure of valuable information can help to overcome information asymmetries and avoid adverse selection.

2.4 A framework

This section connects agency theory with stakeholder theory to provide a comprehensive framework to explain determinants and outcomes of voluntary disclosure of corporate strategy. An earlier attempt to connect both theories was suggested by Hill and Jones (1992), who created a stakeholder-agency theory by suggesting that managers have a responsibility to act as trustworthy agents to multiple stakeholders rather than just the stockholders. In their view, managers have the responsibility to draw together stakeholders to accomplish tasks in an efficient manner. This view is consistent with the “nexus-of-contracts” perspective of the firm (Macey, 1999, Coebergh et al., 2001), which suggests that a corporation can be described as a “complex set of explicit and implicit contracts” (Macey, 1999), following earlier work by Coase (1937) and Cornell and Shapiro (1987). Hill and Jones (1992) find that explicit and implicit communication and negotiation processes serve as monitoring and enforcement devices that motivate managers to stay focused on financial objectives, since information asymmetry exists between managers and stakeholders. As insiders, managers are in a position to filter or distort the information that they release to other stakeholders. Management control over critical information complicates the agency problem. It makes it difficult for stakeholders to identify if management is acting in their interests. The obvious response is for stakeholders to gather more information about corporate activities, but the cost of gathering and analysing information may be prohibitive (Hill and Jones, 1992).

My research extends the theoretical connection between stakeholder theory and agency theory by introducing voluntary disclosure of corporate strategy to serve both theories to

engage with stakeholders in order to realize improved economic performance as well as to reduce information asymmetries in order to avoid adverse selection.

Voluntary disclosure as an instrument

As stakeholder theory shows that engaging with stakeholders pays off, and agency theory shows that principals and agents are confronted with information asymmetries, the question emerges how voluntary disclosure of corporate strategy could fit in. Stakeholder theory suggests that organisations need to engage with stakeholders as they have the power (in its various forms) to influence the achievement of organisational outcomes. Good relationships with stakeholders can also be seen as an intangible organisational source of competitive advantage (Barney, 1991). According to Van Riel (2000), high stakeholder management capabilities have even become more of a necessity in the post-industrial society than they were in the industrial era. Insofar as stakeholder theory has been used to explain disclosure, this has been merely limited to predict levels of corporate social disclosure (e.g. Campbell et al., 2006; Boesso and Kumar, 2007). A number of authors have suggested that the essential building-block of stakeholder relationships is communication (Cheney and Christensen, 2001; Zineldin, 2002; Coebergh, 2004, 2005; Jonker and Foster, 2005). A prerequisite for attaining favourable relationships with stakeholders is managing favourable stakeholders' perceptions of the organisation (Scott and Lane, 2000), because favourable perceptions positively guide their future actions toward the company (Weigelt and Camerer, 1988) and thus also their relations with the company. According to Van Riel (2000) "Communication enables an organisation to begin a dialogue to create awareness, understanding, and appreciation for

the firm's strategic goals, ideally resulting in the satisfaction of the interests of both the firm and its environment." However, the approaches, methods and responsibilities entailed in genuine stakeholder communication are not well understood. Neither are the implications for organisational action. Crane and Livesey (2003) suggest that stakeholder relationships nowadays are characterised by a complex array of shifting, ambiguous and contested interactions between interested parties and within diverse organisations. This, they claim, "highlights the central role of communication in constituting, managing and maintaining stakeholder relationships" (Crane and Livesey, 2003).

Most research on disclosure is focused on communication between managers and investors. However, as Healy and Palepu (2001) observe in their study on disclosure literature: "Corporate disclosure can also be directed to stakeholders other than investors. However, there has been relatively little research on these types of voluntary disclosures."

Some researchers find that communication of corporate strategy can be instrumental in dealing with a wide variety of stakeholders. For example Seiter (1995) analyzed a company's mixed success in explaining its strategy to employees, customers and the community. Botan (1997) analyzed how a company's strategic communication campaign helps to build ethical relationships with the company's key targeted constituencies.

O'Connor (2002) investigated the organisational stories about a firm's strategy that the CEO delivers to investors, employers, customers and partners.

Pearce (1982) applied the stakeholder approach to a very specific form of communicating corporate strategy, being the development and communication of mission statements.

Based on the perspective that firms are collections of multilateral contracts over time, Freeman and Evan (1990) demonstrate how effective stakeholder management puts firms in a stronger position to adapt to external demands. The firm then enjoys greater efficiency through an enhanced ability not only to create and satisfy individual contracts, but also to coordinate multiple contracts simultaneously (Post et al., 2002; Freeman et al., 2010). Excellent relationships and effective management of the entire network can enhance organisational flexibility (Harrison and St. John, 1994).

Higgins and Diffenbach (1985, 1989) are arguably the first scholars to empirically identify benefits of voluntary disclosure of corporate strategy. Surveying American analysts, Higgins and Diffenbach (1985) observe that analysts find that a firm's corporate strategy is important for their assessment of a company and its stock. In 1989, Higgins and Diffenbach surveyed 500 executives of 1,200 large U.S. companies on their motives to communicate corporate strategy. The respondents of their survey gave the following arguments: improved relations with stockholders, the financial community and regulators and government agencies. Secondly, executives expected an increase of consumer recognition of the corporation, effectiveness in dealing with suppliers, morale of company employees and of share value. Without mentioning stakeholder theory, Higgins and Diffenbach (1989) clearly suggested that voluntary disclosure of corporate strategy has a significant impact on stakeholder management.

In sum, various research offers arguments to identify voluntary disclosure of corporate strategy as a powerful instrument for (instrumental) stakeholder theory and agency theory to engage with stakeholders and overcome information asymmetries.

The proposed framework

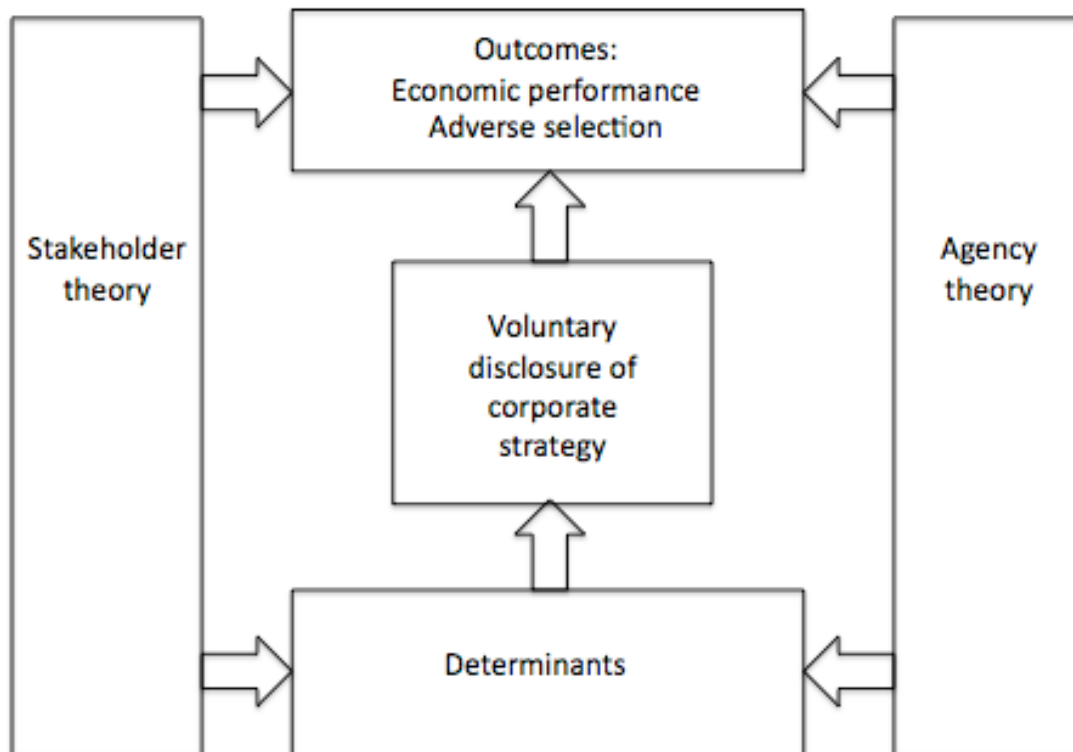
Based on the arguments given previously, I propose that voluntary disclosure of corporate strategy can function as an instrument to engage with stakeholders, leading to positive organisational outcomes that contain improved economic performance through engagement with stakeholders, which is a focal point of stakeholder theory. This theory also explains differences in the extent to which organisations need sustainable support from stakeholders. These differences help to identify determinants of voluntary disclosure of corporate strategy.

I also propose that voluntary disclosure of corporate strategy can function as an instrument to reduce information asymmetries, leading to positive outcomes such as reduced adverse selection, or negative outcomes, such as increased cost of information or risk. These potential organisational outcomes are focal points of agency theory. This theory also explains differences in the extent to which organisations are susceptible for conflicts of interests between principals and agents that influence the organisation of information and risk-bearing costs. Also these differences help to identify determinants of voluntary disclosure of corporate strategy.

Voluntary disclosure of corporate strategy is thereby proposed as an instrument for both stakeholder theory and agency theory to generate organisational outcomes in these theories. Both theories are used to identify and explain determinants of voluntary disclosure of corporate strategy.

Following these proposals, voluntary disclosure of corporate strategy can be placed in the following framework:

Figure 1.1: Theoretical framework



The schematic framework above shows that stakeholder and agency theory suggest that economic performance and adverse selection respectively are influenced by how organisations deal with information asymmetries. My research suggests that voluntary disclosure of corporate strategy is an instrument to manage this influence. To improve understanding what drives voluntary disclosure of corporate strategy, stakeholder and agency theory are used to identify its determinants.

3 HYPOTHESES

Using the proposed theoretical framework that was developed in the previous chapter, this chapter uses stakeholder theory and agency theory to identify determinants and outcomes of voluntary disclosure of corporate strategy.

The essential arguments from both theories that lead to the identified outcomes and determinants of voluntary disclosure of corporate strategy are summarised schematically in this section. Literature on stakeholder and agency theory provides arguments to identify three beneficial organisational outcomes of voluntary disclosure of corporate strategy: improvements in liquidity of stock, volatility of stock and corporate reputation. Literature on stakeholder and agency theory provides arguments to identify two negative organisational effects of voluntary disclosure of corporate strategy: damage caused by either proprietary cost or by litigation cost.

Table 3.1: Hypothesised outcomes of voluntary disclosure of corporate strategy

<i>Outcomes (benefits)</i>	<i>Arguments from stakeholder theory</i>	<i>Arguments from agency theory</i>
<i>Liquidity of stock</i>	Instrumental stakeholder theory suggests that engagement with stakeholders leads to economic success.	Disclosure mitigates adverse selection, reduces uncertainty and thereby price and thereby increases liquidity of stock.
<i>Volatility of stock</i>	Instrumental stakeholder theory suggests that engagement with stakeholders leads to economic success	Disclosure is related to information asymmetry and risk, which is reflected in stock-movements (= volatility).
<i>Corporate reputation</i>	Stakeholders appreciate engagement.	Out of scope from agency theory.
<i>Proprietary cost</i>	Depending on content and circumstances, proprietary information can be abused by different stakeholders	Depending on content and circumstances, agents fear that proprietary information can be abused by principals.
<i>Litigation cost</i>	Company policy and characteristics influence the risk of (legal) conflicts with stakeholders	Agents and other insiders take legal risks into consideration in decisions on disclosure.

Building on stakeholder and agency theory, the following range of determinants for voluntary disclosure of corporate strategy are identified:

Table 3.2: Hypothesised determinants of voluntary disclosure of corporate strategy

<i>Determinants</i>	<i>Arguments from stakeholder theory</i>	<i>Arguments from agency theory</i>
<i>Size</i>	Pressure from stakeholders is related to the size of the company	Size is related to the potential information asymmetries between principals and agents
<i>Industry</i>	Stakeholder-cultures vary by industry	Differing (proprietary) cost structures vary by industry
<i>Leverage</i>	Pressure from stakeholders is related with (the size and distribution of) their financial stakes	Investors' information requirements increase with the agency cost of the firm that are supposed to be higher for firms with proportionally more debt
<i>Profitability</i>	Communicating good or bad news, e.g. on profitability, can influence support from stakeholders	Disclosure of good or bad news can influence adverse selection or (proprietary and litigation) cost.
<i>Ownership concentration</i>	Whether stakeholders are homogeneous or heterogeneous is of influence for overall support of stakeholders	The power-balance between agents (generally insiders) and principals (generally outsiders) influences information asymmetries.
<i>Dual-listing status</i>	The international variety of stakeholders of an organisation is related to the overall pressure from these stakeholders	The international variety of shareholders of an organisation is related to information asymmetries between the principals and agents
<i>National-listing status</i>	National visibility and status is related to pressure from stakeholders	The national position on the stock market is related to information asymmetries between principals and agents
<i>Age</i>	The number of years that a company has interacted with stakeholders influences overall support of stakeholders	The number of years that a company has acted on the stock-exchange is related with perceived cost of information and risk

The arguments from stakeholder and agency theory that help to identify determinants and outcomes of voluntary disclosure of corporate strategy are discussed in the following sections, leading to hypotheses on how these determinants and outcomes are related with voluntary disclosure of corporate strategy.

3.1 Determinants of voluntary disclosure of corporate strategy

Whatever theory on corporate disclosure is considered – research often implies firm characteristics to be important drivers for disclosure (Ahmed and Courtis, 1999). Firm characteristics are also of great importance from an empirical point of view, where empirical research typically controls for endogenous determinants of disclosure policy that are not necessarily part of the underlying theory (Core, 2001). The determinants of voluntary disclosure of corporate strategy that are identified are derived from the theoretical framework that is described in the previous chapter, as well as from the extant literature in finance and accounting on (financial) disclosure.

3.1.1 Size

The variable most consistently reported as significant in studies examining differences across firms in their disclosure policy is firm size. The positive relation between (financial) disclosure and asset size is broadly accepted (Singhvi and Desai, 1971; McNally et al., 1982; Holthausen and Leftwich, 1983; Foster, 1986; Chow and Wong-Boren, 1987; Cooke, 1989; Lang and Lundholm, 1993; Wallace et al., 1994; Meek et al., 1995; Zarzeski, 1996; Schadewitz and Blevins, 1997; Camfferman and Cooke, 2002; Abraham and Tonks 2004, Bushman et al., 2004; Prencipe, 2004). Research explaining why large firms disclose more, typically explain this because large firms: have more stakeholders demanding disclosure, more incentives to reduce information asymmetries and, thirdly, advantageous economies of scale:

Large firms face more demand and pressure from more stakeholders:

Large corporations have a more pronounced effect on society and, therefore, normally have a higher number of stakeholders that influence the corporation (Knox et al., 2006). Media and the public generally demand more information from large corporations than from smaller ones (Lang and Lundholm, 1996). Similarly, larger firms can be expected to be subject to higher political costs, leading to a greater level of disclosure in order to reduce political cost (Watts and Zimmerman, 1986). In the Dutch legal system it is recognized that large corporations typically have more stakeholders than small companies and therefore have more legal obligations in disclosing information (Vergoossen and De Bos, 2005). Furthermore, large firms face higher demand for information from customers, suppliers, analysts, and the general public that causes an increased pressure to disclose information (Cooke, 1989). More specifically, larger firms typically have a larger investor and analyst following, and, thus, more pressure on the company to release information (Bhushan, 1989). Since “sell-side” analysts are rewarded by the trading commissions they generate for the brokerage firms that employ them, they have an obvious incentive to concentrate their efforts on firms with many shareholders. For the Netherlands, Van der Meer (2006) also found that size is a key determinant for analyst following.

Large firms have more incentives to reduce information asymmetries:

Larger firms are supposed to be more complex and therefore have more to explain. Agency theory suggests that large firms have higher agency costs as

larger firms carry out a greater number of contracts and more complex than smaller firms (Jensen and Meckling, 1976; Eisenhardt, 1989). Also signalling theory suggests that information asymmetries will be larger, which justifies more disclosure to mitigate them. Large firms also have a more diverse ownership, and as a result, higher agency cost that they try to reduce by higher voluntary disclosure levels (Meek et al., 1995).

However, Bushman et al. (2004) note that “governance transparency”, defined as “the intensity of governance disclosures used by outside investors to hold officers and directors accountable”, is not related to firm size. In addition, various studies found no relation between complexity (for instance in diversification) and disclosure (Hossain and Reaz, 2007; Francis et al., 2008).

Large firms have an advantageous (direct en proprietary) cost structure:

Direct costs decrease with size (Land and Lundholm, 1993; Cooke, 1989).

Smaller firms sense to a greater extent the disadvantages that, in terms of competitive advantage, derive from a higher level of disclosure (Singhvi and Desai, 1971; Meek et al., 1995). Secondly, large firms are in a better position to “hide” proprietary information, i.e., profitable segments. They also provide more highly aggregated information for a given number of segments, which should reduce proprietary costs (Singhvi and Desai, 1971; Meek et al., 1995).

Based on the arguments mentioned above, I hypothesize as follows:

H1 Company size is positively associated with voluntary disclosure of corporate strategy.

3.1.2 Industry

Levels of disclosure are not likely to be identical throughout all sectors of the economy (Stanga, 1976; Cooke, 1989; Camfferman and Cooke, 2002; Abraham and Tonks, 2004). Higgins and Diffenbach (1989) found that the importance of communicating corporate strategy varies according to specific industry and company circumstances. Watson et al. (2002) state there does not appear to be (ex ante) a clear relationship between industry and disclosure, and as a result a great variety of justifications for an industry effect exist. An obvious argument considers industry to be a contingency variable for shareholders demand of information and therefore, disclosure pressure. An industry effect can be found from the nature of industry's operations that determine the optimal disclosure policy (Botosan, 1997; Core, 2001; Grüning, 2007). A further explanation for industry-specific disclosure policies might result from herd behavior (Arya and Mittendorf, 2005) as financial markets expect information one firm discloses to be available industry-wide. Hence, an industry-specific pressure to disclose this information results can be expected (Cooke, 1991). From a reputational perspective, Van Riel (2007) finds that "Some industries are seen as more trustworthy, others as more risky; some are seen as profiteers, others are seen as more giving. All companies therefore operate in an industry context – and either suffer or benefit from the positive or negative halo around the industry." Proprietary (i.e. competitive disadvantage and political) costs vary across industries (Verrecchia, 1983, 1990). For example, because of the nature of their products and their research and development, chemical companies are likely to be more sensitive about disclosures to competitors and the public than companies in certain other industries.

Finally, O'Brien and Bhushan (1990) found that analyst following is positively associated with industries with more stringent disclosure requirements and a larger number of firms. Some researchers however find that industry is not strongly associated with disclosure. Meek et al. (1995) found little variation in the disclosure of strategic information among industry groups. Watson et al. (2002) analyze industry-effects on disclosure against the background of legitimacy and agency theory, but find that implications are ambivalent. Based on the arguments mentioned above, I hypothesize as follows:

H2 Voluntary disclosure of corporate strategy is related to the industry in which the company is operating.

3.1.3 Leverage

Leverage concerns the use of various financial instruments or borrowed capital to increase the potential return of an investment. Leverage can be measured as the amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is considered to be highly leveraged. Agency theory predicts that investors' information requirements increase with the agency cost of the firm. Agency cost are supposed to be higher for firms with proportionally more debt in their capital structures since potential wealth transfers from debt holders to shareholders and managers increase with leverage (Jensen and Meckling, 1976; Eisenhardt, 1989; Leuz, 2004; Vergoossen and De Bos, 2005). However, empirical research shows various results on the association between leverage and disclosure:

Positive association between leverage and disclosure

Several empirical studies confirmed a positive association between leverage and voluntary disclosure of segment reporting (Mitchell et al., 1995). Holthausen and Leftwich (1983) find that leverage is, together with firm size, one of only two significant variables explaining choices of accounting techniques in their literature review that study the economic consequences of voluntary and mandatory choices of accounting techniques. Bradbury (1992) found a significant, positive relationship between leverage and disclosure for New Zealand firms. Rajan and Zingales (1998) show a positive correlation between the CIFAR disclosure index and external financing. Ahmed and Courtis (1999) conclude from their meta-analysis that disclosure increases with leverage. Jaggi and Low (2000) find that disclosure increases with leverage in common law

systems and has no significant relation in code law systems.

Prencipe (2004) found financial leverage to be significantly related to the extent of segment reporting, confirming that companies produce segment information in order to reduce agency costs in the relationship with financial creditors, and that once they produce such information for lenders they also disclose it in the annual reports.

Using a sample from 34 countries, Francis et al. (2005) find firms in industries with greater external financing needs have higher voluntary disclosure levels. Utrero-Gonzalès (2006) shows that lower debt levels express a strong regulatory requirement for disclosure: theorizing that greater disclosure would allow firms to raise equity capital more easily. Khurana et al. (2006) measure the part of a firm growth that is financed externally. They show that the more transparent a firm is, the higher this share will be. Their underlying idea is that disclosure facilitates external financing, investments and growth.

Negative association between leverage and disclosure

Some studies find a negative association between leverage and disclosure, presenting various explanations. Meek et al. (1995) explain a negative relationship between leverage and voluntary disclosure for U.S., U.K., and continental European multinationals, by suggesting that agency theory might be far less influential on disclosure than size and proprietary cost. Zarzeski (1996) explains the found negative association because creditors may be able to obtain private information. For Singapore, Eng and Mak, (2003) suggest that the inverse relationship between debt and disclosure is consistent with debt being a mechanism for controlling the free cash flow problem (Jensen, 1986), reducing

the need for disclosure. Bushman et al. (2004), based on CIFAR-data, find that “governance transparency is significantly and negatively related to the importance of bank financing relative to external equity financing.” Prencipe (2004) reports a similar phenomenon for Italy “where banks are the typical lenders, the relationship between the two variables may become less clear since companies may privately provide detailed information to the banks without disclosing it in the annual reports.”

Conflicting results

Research in various countries found no relationship between leverage and disclosure: Chow and Wong-Boren (1987) in their sample of Mexican firms; McKinnon and Dalimunthe (1993) and Kelly (1994) for Australian firms; Wallace and Naser (1995) and Gul and Leung (2004) for companies in Hong Kong; Leuz (2004) for firms in Germany. The explanations for these findings that there is no association between leverage and disclosure typically converge around the assumption that – at least in the countries where no association was found - it is likely that information is provided privately to the (powerful) lenders and not in the annual reports. This assumption is in line with research where a negative association between leverage and disclosure is found. Finally, Camfferman and Cooke (2002) find that gearing is significantly positively associated with disclosure in The Netherlands, but negatively (not significant) related in the U.K.

Although apparently various studies have reported conflicting results, there seems to be substantial indication that voluntary disclosure of corporate strategy can be expected to increase with leverage, especially in the Dutch economy (Camfferman and Cooke, 2002).

This follows the suggestion of stakeholder theory that the power of stakeholders to influence management is a function of the resources they control that are essential to the corporation (Smith et al., 2005). The bigger the interests of (external) stakeholders are, the bigger the pressure for disclosure can be expected.

Based on the arguments mentioned above, I therefore hypothesize as follows:

H3 Leverage is positively associated with voluntary disclosure of corporate strategy.

3.1.4 Profitability

Stakeholder theory suggests that organisations have incentives to engage with stakeholders. My proposition is that communication with stakeholders contributes to stakeholder management. It can be expected that the more successful an organisation functions, the more it is inclined to communicate this success. Next to stakeholder theory, agency and signalling theories are used to explain the relationship between profitability and disclosure. Empirical literature on the association between good news in general, and profitability in specific, delivers complex and conflicting results. Key findings are summarized below in five categories: first inconclusive results on the relation between profitability and (voluntary) disclosure, followed by theoretical and empirical arguments why organisations highlight good news, hide bad news, hide good news and highlight bad news respectively.

Conflicting evidence

To date, the empirical evidence on the relation between firm performance and disclosure is mixed. Analytical models and empirical work show that the relationship between voluntary disclosures and (realized) profitability is complex and depends on the type of competition (Verrecchia, 1990). Several studies did not find a relationship between profitability and disclosure (Raffournier, 1995; Prencipe, 2004). McNally et al. (1982) do not find profitability (as a source for good news) to be significant in explaining voluntary disclosures by New Zealand companies. Other research supports the hypothesis that managers have incentives to release both good and bad news either way (Ruland et al., 1990). Lang and Lundholm (1993) contend that disclosure is influenced by a company's

relative performance and hence, the direction of the relationship between performance and disclosure is rather unclear. Meek et al. (1995) find no evidence that voluntary disclosure behaviour is different between more and less profitable firms in the United Kingdom.

Aboody and Kasznik (2000) suggest that disclosure is largely driven by CEOs who make opportunistic voluntary disclosure decisions that maximize their stock option compensation, observing that top executives have compensation-related incentives to for instance accelerate the disclosure of bad news and delay announcements of good news. Berger and Hann (2007) find mixed evidence in testing the hypothesis that managers conceal abnormal profits in order not to attract competition.

More disclosure on good news:

The main underlying thought that organisations are expected to disclose good news comes from Akerlof's (1970) model of a "lemons" market, where asymmetrical information causes bad quality products to drive out the good, since buyers find it difficult to tell the difference. There is a risk of adverse selection in being perceived as a "lemon"; so profitable, well-run firms have incentives to distinguish themselves from less profitable firms. One way to do this is through voluntary disclosure (Singhvi and Desai, 1971; Foster, 1986). Thus, more profitable firms - having good news to tell - can be expected to disclose more voluntary accounting information. Ross (1979) suggests that if favourable disclosures are considered to increase the value of the firm, then outsiders will interpret no news as bad news. As a result, all managers without bad news have an incentive for disclosure, and only firms with the worst news are not expected to disclose

information. Verrecchia (1983) follows this reasoning with a model showing conditions under which information will be disclosed given that nondisclosure can be interpreted either as bad news or as good news with anticipated high disclosure cost. Related research suggests that if managers' main objective is to maximize current market value, companies with good news will voluntarily release that information when the benefits exceed the costs associated with disclosure (Lev and Penman, 1990). Rappaport (2006) states that specific disclosure will not prove too costly: "The reality is that executives in well-managed companies already use the type of information contained in a corporate performance statement. Indeed, the absence of such information should cause shareholders to question whether management has a comprehensive grasp of the business and whether the board is properly exercising its oversight responsibility." For conference calls, Hollander et al. (2010) document strong support for the assumption maintained in the literature that investors interpret silence negatively: "no news = bad news."

A second argument that organisations are expected to disclose good news is that there is extensive research indicating that managers often show a bias when they provide explanations for organisational outcomes (Lang and Lundholm, 1993; Aerts, 1994). This so-called self-serving attributional bias is not characteristic for managers in particular; there is a large body of social-psychological research that indicates that people in general engage in self-serving attributional biases when they provide explanations (Hooghiemstra, 2003). People, including managers, tend to take credit for positive organisational outcomes and deny taking responsibility for deterioration in performance, by blaming it on the environment. Language is used to blur attributions. Aerts (1994) refers to such attributions as a "hedonic bias": a general tendency to attribute anything

negative to external, environmental causes and to attribute favourable organisational outcomes to internal dispositional factors. Additionally, negative performances are explained in technical accounting terms, while positive performances are explained in strict cause-effect terminology so that management's responsibility for them is clear. Finally, Lang and Lundholm (1993) offer two additional explanations why organisations are expected to disclose good news regarding other stakeholders than shareholders: to obtain and justify better contractual conditions in the supply chain, and - following the political process theory - justify considerable profits to avoid legal obligations.

Empirically, a major share of research on disclosure found a positive association between profitability - or similar good news on corporate performance - and disclosure (Singhvi and Desai, 1971; Lang and Lundholm, 1993; Clarkson et al., 1999; Watson et al., 2002; Prencipe, 2004). Kühn and Vives (1995) suggest that, on average, profits are higher for transparent firms. Their research also suggests that a firm that is less transparent than its competitor does not necessarily enjoy a strategic advantage, finding that more opaque firms exhibit less variability in products and output relative to more transparent competitors. One of the few studies that analyses disclosure through press releases (Clarkson et al., 1999), finds a positive association between the number of press releases issued and company performance.

Research on impression management confirms the self-serving attributional bias of companies, showing that the amount of space devoted to reporting favourable information, e.g. increases in sales or profits, is significantly larger than the space devoted to unfavourable information (Kohut and Segars, 1992). Narratives of good

performers are found to be easier to read than those of poor performers and good performers use “stronger” writing in their reports than poorer performers (Subramanian et al., 1993). Beattie and Jones (1997) show that especially companies with good performance make more extensive use of graphs in their annual reports than companies with poor performance. It is said that letters to the shareholders “are notorious for adopting optimistic attitudes and presenting euphemistic descriptions of company’s results and prospects” (Bruce, 1987). In addition, they are designed to send the right message, i.e. to enhance the story of corporate performance contained in the financial statements or to signal or, maybe more likely, to detract attention away from poor performance (Preston et al., 1996). That is, management seems likely to accentuate the positive, whereas the negative is obscured or even eliminated (Stanton et al., 2004). Kasznik (1999) provides evidence that managers use positive discretionary accruals to manage reported earnings upward when earnings would otherwise fall below management's earnings forecasts. Wilcox et al. (2010) find that firms with positive abnormal growth seek different types of disclosure to correct the perceived undervaluation.

Less disclosure on bad news:

Mirroring extra disclosure on good news, impression management research on annual reports finds that graphics contain distortions, e.g. in scale, so that an increase in profits is accentuated while a decrease in profits is graphically understated (Aerts, 1994; Preston et al., 1996; Beattie and Jones, 1997; Stanton et al., 2004). Jameson (2000) finds that language in annual reports is used to blur distinctions about the causes of poor

performance, presenting the company in a positive light. Hooghiemstra (2003) found some indication that letters of poor-performing companies are less readable than those of companies that performed well. Berger and Hann (2007) find that managers conceal low abnormal profits in order to avoid agency cost in terms of heightened external monitoring.

Various research found that negative news disclosure is strongly weighted by the market, and positive news is discounted as firms and investment analysts have incentives to skew disclosure, concluding that managers accumulate and withhold bad news up to a certain threshold, but leak and immediately reveal good news to investors (Kothari et al., 2009). Leuz et al. (2008) find that many firms go dark due to poor future prospects, distress and increased compliance costs after Sarbanes-Oxley. Kothari et al. (2009) theorize that capital market and human capital incentives dominate managerial disclosure behaviour and lead to managers on average withholding bad news and leaking good news early, in spite of incentives to disclose bad news promptly to avoid litigation and reputation cost. An example of this theory is that leading Dutch financial giant ING announced in August 2004 that they adopted a policy to no longer give profit forecasts. Cees Maas, (then) CFO of ING Banking & Insurance, the largest Dutch financial commercial institution, commented that if forecasts are accurate, there are no rewards, but when forecasts are wrong, punishment is severe (Van der Heijden, 2004).

By contrast, Tucker (2007) observes that prior researchers suggest that firms warning investors of an earnings shortfall experience lower returns than non-warning firms with similar risks and earnings news. Openness thus appears to be penalized by investors.

Tucker (2007) critiques prior research in not acknowledging a possible self-selection bias

that occurs when firms with a larger amount of unfavourable non-earnings news ("other bad news") are more likely to warn. Tucker (2007) finds in her research that warning firms' returns remain lower than those of non-warning firms in a short-term window ending five days after earnings announcement. When this window is extended by three months, however, warning and non-warning firms exhibit similar returns. As a result, evidence suggests that investors do ultimately not penalize openness.

Less disclosure on good news:

An argument not to disclose (financial) success is based on the notion that managers face proprietary costs if the revelation of high abnormal profits attracts more competition and, hence, reduces the abnormal profits (Verrecchia, 1983; Wagenhofer, 1990).

Analyzing listed companies in Hong Kong, Wallace and Naser (1995) found a negative relation between profitability and disclosure. The finding that comprehensive disclosure indexes may be decreasing with profit margins may be driven by the relative inaction of high profit firms because they feel that investors are satisfied with reported high profits and so would not wish additional information (Wallace et al. 1994). Wallace and Naser (1995) find their results inconsistent with research that found a positive relation between profitability and disclosure because of the unique characteristics of the capital market in Hong Kong, where many firms are closely held by a few wealthy families of Chinese ancestry. It is possible that personal connections and proper behavior may be more important for these families than the performance of their companies, obliging the Chinese manager to guarantee the composure of others while maintaining self-composure. For German firms, Leuz (2004) found that the average or aggregate

profitability reported in the income statement is less informative on the profitability of the individual segments, essentially allowing firms to hide competitively sensitive information. Leuz (2004) contends that firms with more heterogeneous segment profitability are less likely to voluntarily provide segment reports, consistent with the notion of proprietary cost. For private companies, Dedman and Lennox (2009) find that companies withhold information from the public domain when gross profits are higher and when managers perceive that their markets are more competitive.

Lang and Lundholm (2000) show that firms that increase disclosure to oversell or “hype” their stock suffer from negative earnings, although they may have been successful in lowering the firm’s cost of capital. Research confirms that managers routinely try to signal investors about their economic performance. Since investors are more favourably disposed to companies that demonstrate high and stable earnings, managers often try to smooth quarterly earnings and keep dividend payout ratios high and fixed, despite earnings fluctuations (Brealy and Myers, 1988). Anecdotic evidence that overselling profits is not perceived being trustworthy comes from Walker (2001), analyzing the “more than 100 quarters of uninterrupted growth in net income that have occurred under the reign of Jack Welch at GE”, stating that “it does seem curious that GE's many onetime gains, acquisitions, and special charges invariably and smoothly balance each other every three months.”

More disclosure on bad news:

Litigation costs (Francis et al., 1994; Skinner, 1994, 1997) and proprietary cost (Clarkson et al., 1999) are the main reasons suggested in research for the release of bad news. In his grounded theory on corporate disclosure, Holland (2005) theorizes that disclosure, both public and private, increases when performance declines and during take-over battles. In a U.K. study, Skinner (1994, 1997) finds that firms with bad earnings news are more than twice likely to pre-disclose poor earnings performance than firms with good news.

Withholding bad news is also thought to impose reputation costs, since investors dislike negative earnings surprises (Skinner, 1994). Abraham and Tonks (2004) found for the United Kingdom that companies whose future earnings are poor are more likely to make disclosures.

Lang and Lundholm (1993) suggest that firms with negative information (particularly earnings information) might wish to convey more information to enhance credibility or to reduce the likelihood of legal liability. Penno (1996) theorizes that disclosure precision can be forecasted by the knowledge of the reporting firm's relative degree of success.

Firms with a high degree of disclosure (of financial information) tend to be experiencing difficulties, while firms publishing less precise disclosures tend to generate more stable earnings.

Penno (1996) calls disclosure with high precision “back-to-the-wall” policy, where initially unfavourable news is followed up by an extensive output of information.

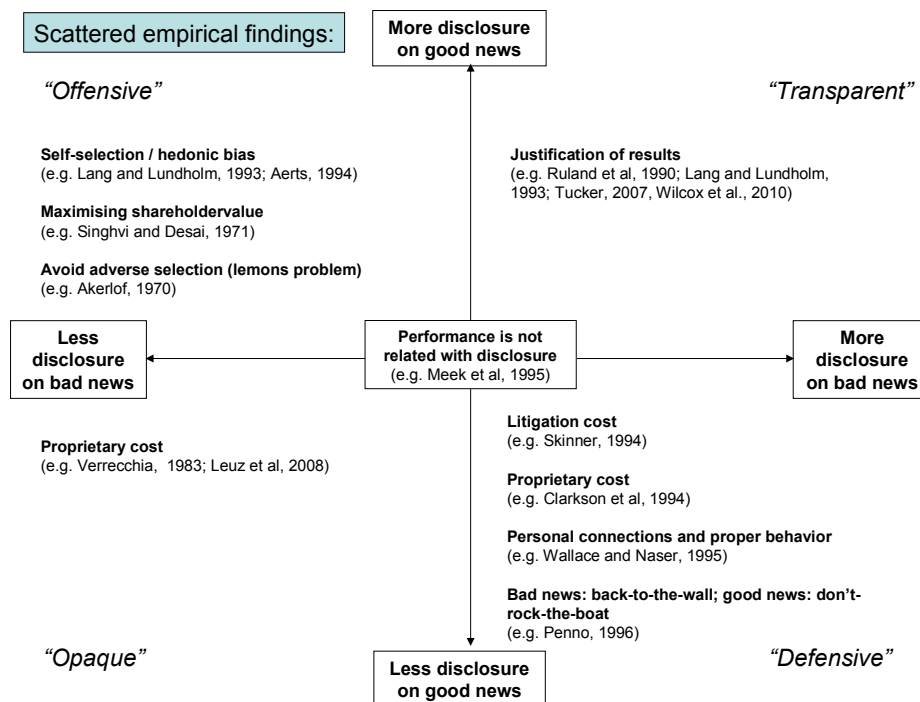
Disclosure with low precision is viewed as a “don't-rock-the-boat” policy, where good initial news is not followed by an extensive output of information. Wilcox et al. (2010)

find that firms with negative abnormal growth seek different types of disclosure to correct the perceived undervaluation.

Interviewing 16 corporate directors of publicly listed companies in the UK, responsible for disclosure policy, Armitage and Marston (2008) found that no-one in their sample agreed with the suggestion that the degree of disclosure is linked to the company's performance, and several executives stated that, if anything, it is more important to be open when performance is disappointing. One respondent's view was that increasing disclosure with good performance would "look stupid". Altogether, the differing arguments and schools of thought are summarized in the scheme below, categorized in four quadrants:

Figure 3.1: Scattered empirical findings

The figure below shows contrasting empirical results from research on the influence of good or bad news on voluntary disclosure. The results are contrasted in four quadrants that represent four different strategies on disclosure that either highlight or downsize good or bad news respectively.



In sum, empirical research on the relationship between profitability (or other good news) and disclosure points at various directions. In line with stakeholder theory, it can be expected that organisations have incentives to express how corporate strategy pays off, confirming the strength and direction of the organisation in relation with stakeholders.

Based on this analysis, I therefore hypothesize as follows:

H4 Profitability is positively associated with voluntary disclosure of corporate strategy.

3.1.5 Ownership concentration

Stakeholder theory holds that the power of stakeholders to influence management is a function of the resources they control that are essential to the corporation (Smith et al., 2005). Publicly traded firms have dispersed shareholders who demand governance to protect their residual claims, monitor management actions and limit opportunistic behaviour (Ashbaugh-Skaife et al., 2006). Stakeholder theory suggests that the more stakeholders an organisation has, and the more the interests of these stakeholders differ, the more cumulative pressure for disclosure an organisation can expect. It can therefore be expected that the lower the concentration of ownership in a company is (or the more ownership is diffused), the higher the pressure for disclosure of strategic information will be. This notion is mainly developed in agency theory but can be extended through stakeholder(-agency) theory: the lower the concentration of stakes in a company is (or the more stakes are diffused), the higher the pressure for disclosure of strategic information will be.

Similarly, agency theory contends that the interests of the principals (shareholders) and managers (agents) are distinct, irrespective of their block size in shares. Agency theory argues that with greater ownership diffusion firms are more likely to experience pressure from shareholders for greater disclosure practices to reduce agency costs and information asymmetry (Raffournier, 1995). In general, principals are considered to be outsiders, and agents are considered to be insiders. Insider ownership is usually expressed as the percentage of the firm's outstanding shares held by insiders. Institutions (e.g. mutual funds, pension plans, trust funds, and other large investors) holding 10 percent of a company's shares are typically considered to be insiders, so the total of insider plus

institutional holdings can exceed 100 percent of outstanding shares. This distinction of insider and outsider ownership is not refuted by the observation that many controlling owners can be members of the board or participate in management. The board is viewed as the ultimate internal monitor whose most important role is to scrutinize the highest decision makers within the firm. This means that shareholders who want to take an active part in their ownership role should have members on the board or at least a constant communication with the board and the company management to be seriously involved and able to exercise influence and authority.

It is theorized that the bigger outside ownership is, the bigger the external pressure to reduce information asymmetry will be (Jensen and Meckling, 1976; Eisenhardt, 1989). However, if outside ownership is concentrated in blockholder ownership (i.e., external shareholders who own at least 5% of the common stock outstanding of the firm these investors are able to obtain information directly from the company, reducing the need for public disclosure (La Porta et al., 1999; Archambault and Archambault, 2003). Dominant shareholders typically have access to the information they need and are therefore not interested in public disclosure (Cormier et al., 2005; Bushee et al., 2003; Prencipe, 2004). The tendency of dominant shareholders to limit disclosure is typically found in family-controlled firms (Kraaijeveld, 2002; Chau and Gray, 2002; Chen et al., 2008)

A substantial amount of research confirms that outsider ownership is positively associated with (financial) disclosure (Ruland et al., 1990; Healy et al., 1999; Patelli and Prencipe, 2007; Darus and Taylor, 2008). Some authors however point out that the characteristics of the outside owner make a difference. For example Perotti and Von

Thadden (2001) find that bank-controlled firms are more opaque, while shareholder-run firms are more transparent. Eng and Mak (2003) find that blockholder ownership as such is not related to disclosure, but that significant government ownership is associated with increased disclosure.

In summary, literature on the relation between ownership and (financial) disclosure generally suggests that ownership dispersion is positively associated with disclosure and that, conversely, ownership concentration is negatively associated with disclosure. It must be noted however that outside blockholder ownership is positively associated with disclosure, until the outside blockholders prefer to reduce information asymmetry in direct communication with agents, rather than through public disclosure.

Based on the arguments mentioned above, I hypothesize as follows:

H5 Ownership concentration is negatively associated with voluntary disclosure of corporate strategy.

3.1.6 Listing status

This study is limited to companies that are publicly listed in the Netherlands. The legal and cultural environment of a corporation strongly influences its transparency, illustrated by a large body of literature on financial reporting in cross-national contexts (Archambault and Archambault, 2003, Santema et al., 2005). Higgins (1996) analyses that “How a company goes about achieving strategic credibility and how a firm communicates strategic information will vary by country and region.” It can therefore be expected that being listed in two or more countries is of influence on voluntary disclosure of corporate strategy. In addition, Cooke (1989) argues that agency costs increase as shareholders become more remote from management. As unlisted companies tend to have a smaller number of shareholders, agency costs are expected to be lower than those for listed companies. Conversely, due to the greater separation between owners and managers, listed companies are likely to incur higher agency costs, such as “monitoring costs”. These costs can be reduced through the voluntary disclosure of additional corporate information (Schipper, 1981). Hossain et al. (1995) suggest that both stock exchange listing status and voluntary corporate disclosure are complementary forms of monitoring. Consequently, one would expect to find a positive relationship between the two variables.

There is a considerable amount of literature investigating the effect of listing status on disclosure (i.e., Hope, 2003). With the globalization of business and capital markets, the number of companies cross-listed is increasing. However, evidence from previous literature on the effects of foreign exchange listing on disclosure is mixed. Several studies have found a positive relationship between disclosure and listing status of a company

(Singhvi and Desai, 1971; Cooke, 1989, 1991; Wallace et al., 1994; Ahmed and Courtis, 1999; Archambault and Archambault, 2003). The found positive association is explained by the idea that, when listed internationally, firms are expected to face more demand and pressure for information, more regulations on disclosure, more ownership dispersion and more competition in disclosure. In a cross-country analysis, LaPorta et al. (2005) show that higher disclosure is positively correlated with larger stock markets and a larger number of listed firms.

Other research found that cross-listing might not be a significant driver of disclosure. For the UK, Meek et al. (1995) found that, next to international listing, country and origin of region, national characteristics, different political costs and differences in disclosure requirements are also determinants of disclosure. Hossain and Reaz (2007) find that multiple exchange listing is insignificant in explaining the level of disclosure. For press releases in Spain and the UK, Guillamon-Saorin and Sousa (2010) find that cross-listing is insignificant, even when performed for each country separately and therefore they excluded the variable from the main analysis.

As for the effects of dual-listing on voluntary disclosure of corporate strategy, I follow the argument that, when listed internationally, firms are expected to face more demand and pressure for information, more regulations on disclosure, more ownership dispersion and more competition in disclosure. Based on this reasoning, I hypothesize as follows:

H6 Dual-listing status is positively associated with voluntary disclosure of corporate strategy.

Similarly, a listing effect can be expected on a national level, where publicly listed companies are ranked in different indices, based on market size but also on the number of shares outstanding. Callison (2003) observes that higher-ranking companies in the Fortune 500 list more often provide information on their company websites that journalists consider useful, such as press rooms and materials in press rooms than lower-ranking companies. As for the Netherlands, Euronext Amsterdam, formerly The Amsterdam Stock Exchange, has three capitalization-weighted indices or market-value-weighted indices, whose components are weighted according to the total market value of their outstanding shares. The impact of a component's price change is proportional to the issue's overall market value, which is the share price times the number of shares outstanding. The 25 companies with the highest share turnover (in Euros) over the previous year deemed to be "representative of the Dutch equity market" are admitted to the AEX-index. Companies which have fewer than 25% of shares considered free float on Euronext Amsterdam and a free-float market capitalisation ranked lower than 25th are, however, ineligible for inclusion. Unlike some other European benchmark equity indices, if a company has more than one class of shares traded on the exchange, only the most actively traded of these will be accepted into the AEX. Subsequently, The AMX index, derived from Amsterdam Midkap Index, also known as Midkap index or simply Midkap, is composed of the 25 funds that trade on the exchange and that rank 26-50 in size. The Amsterdam Small Cap Index (AScX) is composed of the 25 funds that trade on the exchange and that rank 51-75 in size. Being listed on the AEX results in substantially more visibility and pressure than being listed on the AMX, which in turn is surrounded by more visibility and pressure than the AScX-index. Other companies that are listed at

Euronext Amsterdam but that are not listed in the three indices typically struggle for exposure and face little pressure from external stakeholders.

Following the argument that, when listed higher in a national ranking based on market-capitalization and outstanding shares, firms are expected to face more demand and pressure for information as well as higher information asymmetries.

Based on this reasoning, I hypothesize as follows:

H7 National ranking status is positively associated with voluntary disclosure of corporate strategy.

3.1.7 Listing age

The length of time a company has been listed on a capital market may be relevant in explaining the variation of disclosures (Haniffa and Cooke, 2002). Various arguments are used in explaining firm age as a variable for disclosure. On one hand, younger companies are expected to operate under more uncertainty and therefore higher information asymmetries than older companies. Younger companies can therefore be expected to deliver more disclosure than older companies.

Younger listed companies without an established shareholder base are expected to be more reliant on external fund raising than more mature companies (Barnes and Walker, 2006) and have greater need to reduce scepticism and boost investor confidence (Haniffa and Cooke, 2002). Research indicates disclosure of non-financial information is of greater importance in the valuation of younger companies (Kim and Ritter, 1999). The same applies to value relevant disclosure since it enhances the decision usefulness objective of financial reporting (Li et al., 2009). Company age has also often been used as a proxy for risk, and is therefore expected to be correlated with the extent of company disclosure (Bukh et al., 2005).

Conversely, companies that are older in terms of listing age, can be expected to have gained more acceptance and a vested reputation, which in turn has led to an expected level of disclosure that exceeds the expectations for newly listed companies. Wallace et al. (1994) observed that publicly listed companies are aware of raising expectations through increased disclosure, indicating they are reluctant to provide additional detail that will have to be continued in later years. Also Graham et al. (2005) found that the most-

supported concern among interviewed U.S. executives (agreed by 70% of survey respondents) is “setting a disclosure precedent that may be difficult to continue.”

Confirming that disclosure tends to increase through the years, Armitage and Marston (2008) found that U.K. executives believe that their policies for disclosure “had evolved gradually towards more openness.”

Secondly, whether disclosure signals function as a stimulus or threat for (new) competition remains under debate. Verrecchia (1983) theorizes that market competition may provide disincentives for voluntary disclosure through increased proprietary costs. Wagenhofer (1990) suggests that corporations balance disclosure between maximizing the market price of the firm versus not stimulating market entry by a competitor and imposing political costs. Also Clinch and Verrecchia (1997) suggest that when competition increases, disclosure decreases. Alternatively, Darrough and Stoughton (1990) suggest that competition through threat of product market entry encourages voluntary disclosure.

As for the association between listing age and voluntary disclosure of corporate strategy, I argue that companies increase their disclosure through the years, being stimulated or pressed increasingly by an increasing variety of stakeholders. I therefore hypothesize as follows:

H8 Listing age is positively associated with voluntary disclosure of corporate strategy.

3.2 Organisational outcomes of voluntary disclosure of corporate strategy

Stakeholder theory, especially instrumental stakeholder theory, suggests that engagement with stakeholders contributes to economic performance. Agency theory provides insight on how reduced information asymmetries might reduce adverse selection. Stakeholder theory and especially legitimacy theory also suggest that stakeholders appreciate being engaged as stakeholders. It can therefore be expected that stakeholder management, using voluntary disclosure of corporate strategy as a vital instrument, leads to economic success, but also to improved corporate reputation as a proxy for qualitative appreciation for the organisation by stakeholders. Building on agency theory and stakeholder theory, this section proposes three hypotheses to identify and test organisational (beneficial) outcomes of voluntary disclosure of corporate strategy: liquidity of stock, volatility of stock and corporate reputation. These pursued outcomes are balanced against potential cost of voluntary disclosure of corporate strategy: production, litigation and proprietary cost. The nature of these costs and benefits are discussed in the following paragraphs in order to develop testable hypotheses. First, the potential costs of voluntary disclosure are discussed, as costs typically form the starting point of deciding to what extent voluntary disclosure takes place and are balanced against potential benefits. Following the arguments of Grossman and Hart (1980), several authors propose that theory of voluntary disclosure is a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favorable to the entity, and will not disclose information unfavorable to the entity (Camerer, 1996). Game-theoretic models of disclosure argue that full disclosure occurs through a process known as unraveling. This notion that the behavior of rational buyers can unravel

withheld information is a “seminal result that forms the basis for nearly all of the subsequent research” (Verrecchia, 2001). Approaching voluntary disclosure as a game, a substantial stream in the disclosure literature is investigating if and where there is a mathematical equilibrium or optimum in what companies are prepared to disclose. This literature approaches the so-called disclosure principle as a puzzle in the accounting literature. Researchers have built sophisticated models to understand how corporations balance perceived advantages and disadvantages of disclosure under various circumstances (Verrecchia, 2001). Several game theoretic models of financial markets suggest that in equilibrium firms should disclose all their private information. The adverse-selection problem inherent in the buying and selling of company shares is said to compel the seller to fully disclose to the buyer (Grossman and Hart, 1980; Milgrom, 1981). Korn and Schiller (2003) however show that even in the original disclosure models there are multiple equilibria, finding that in those equilibria good types disclose and bad types do not. As shown by the seminal work of Akerlof (1970) and Spence (1973), and by the subsequent contributions of Rothschild and Stiglitz (1975) and Riley (1975), equilibrium in markets with asymmetric information and signalling may have quite different properties from equilibrium either with no information transfer, or with direct and costless information transfer. Signalling equilibria may not exist, may not be sustainable, and may not be economically efficient. In sum, potential costs of voluntary disclosure can be expected to be compared with potential benefits. This can be illustrated by the concept of proprietary cost that is discussed in the coming section. Proprietary cost is frequently being used in literature on potential benefits of voluntary disclosure, which is discussed in the remaining sections of this chapter.

3.2.1 Economic costs of disclosure

Academic literature identifies three types of costs in relation with disclosure of strategic information: production cost, litigation cost and proprietary cost. Their relevance for this research is discussed below.

Production cost

Production costs of corporate information include the cost of gathering, processing, auditing and disseminating information. As larger firms generally disclose more information, for instance in larger annual reports, they are also likely to incur higher production costs of disclosure (Lev, 1992; Kohut and Segars, 1992; Elliot and Jacobson, 1994). Research by Goodman (2001) shows that cost for corporate communication are in the range of 0,5% of corporate turnover. Tapscott and Ticoll (2003) confirm that voluntary disclosure can be expensive, for instance when it comes to social responsibility staff, annual sustainability reports, external verification, consultants, and the like.

As for mandatory disclosure, it is found that many firms “go dark”, i.e., cease filing with securities and exchange authorities, partly in response to increased compliance costs after the implementation of the Sarbanes-Oxley-law (Bushee and Leuz, 2005; Leuz et al., 2008).

Farvaque et al. (2009) suggest that production cost of disclosure approaches “The figure of 1 million Euro auditing costs by billion of revenue is often quoted by the press, with annual reductions (that can be attributed to initial fixed costs and to economies of scale) varying from 15% to 40%.”

Indirect costs, such as opportunity cost and risk aversion, are found to be very difficult to measure, although they are also typically assumed to erode over time as companies get more efficient in producing information (Elliot and Jacobsen, 1994; Verrecchia, 2001, Coates, 2007). Altogether, production cost of disclosure is regularly cited as an argument for companies to limit disclosure, even if the permanence of the legal obligation allows procedures to be standardized and economies of scale to be implemented (Leuz, 2004; Coates, 2007). However, disclosure of corporate strategy is assumed to have negligible production cost. Though production of corporate strategy as such might be very significant, if all related effort and time of management (and often hired consultants) is included, it must be noted that crafting strategy, as well as the cost of internal dissemination, are not in scope of my study.

Litigation cost

A second type of cost that is related with voluntary disclosure is labelled as litigation cost. Legal and reputational cost may be incurred when firms get their information practices wrong. Litigation costs can arise from allegations of insufficient informative disclosure or from allegations of misleading disclosure, independent of the judgment whether it concerns good or bad news (Skinner, 1994, 1997; Field et al. 2005). Litigation can be costly because of attorney fees and potential monetary settlements, but also because of the opportunity costs of managers' time and effort taken away from value-adding activities. When choosing voluntary disclosure policies, companies are expected to consider their risk of litigation. The threat of shareholder litigation can affect a firm's disclosure decisions in two ways: on the one hand, the risk of legal actions taken for

inadequate or untimely disclosures can encourage firms to increase voluntary disclosure. On the other, the risk of litigation can reduce firms' incentives to provide disclosure. Empirical research on the relation between voluntary disclosure decisions and litigation risk provides mixed evidence (Healy and Palepu, 2001). Field et al. (2005) demonstrate that this may be in part attributable to the endogenous relation between litigation risk and disclosure. Their findings suggest that disclosure deters rather than triggers (certain types of) litigation. For the Netherlands, legal battles against publicly listed companies on issues of information asymmetry between principals and agents are normally driven by the Dutch shareholders association (Vereniging EffectenBezitters, VEB), well known for its active participation as shareholder in most plc's in the Netherlands to protect the interests of their members – primarily shareholders with minor interests. Their legal battles against the companies in my sample of companies and years are listed below:

Table 3.3: Litigation issues of the top-70 plc's in the Netherlands

<i>Legal cases of the Dutch shareholders association VEB against top-70 plc's in the Netherlands during 2003-2008</i>	
1.	In 2003, Ahold admitted to have delivered incomplete and fraudulent information on its value on a large scale. Ahold settled with the VEB for € 1,1 billion in 2005.
2.	In 2004, Royal Dutch Shell admitted in 2004 to have given false information on oil reserves. Royal Dutch Shell settled, next to related cases with various international shareholders, with the VEB for € 389 million in 2009.
3.	In 2004, Unilever settled a dispute on (earlier communication on) the value of preferred stock, for € 300 million with the VEB.
4.	In 2004, the VEB claimed mismanagement at Getronics and asked for compensation for giving too optimistic forecasts; no compensation was awarded however.
5.	In 2007, information on the take-over of Numico by Danone became public before the official release, thereby influencing shareprice irregularly. Numico compensated the VEB for € 17 million in 2009.
6.	In 2008, information on the take-over of Vedio by Randstad became public before the official release, thereby influencing shareprice irregularly. Vedio compensated the VEB for € 4 million in 2010.
7.	In 2008, the VEB started an inquiry into the collapse of Fortis.
8.	In 2009, the VEB started an inquiry right after the bankruptcy of VanDerMoolen, suspecting mismanagement and false disclosure during preceding years.

The cases above illustrate that considerable litigation cost can be expected in clear and substantial cases of mismanagement and fraud, of which the cases of especially Ahold, Royal Dutch Shell and Fortis have been widely documented in various media.

However, this variable was not included in my research because, firstly, theory suggests that the cost of litigation mainly lies in opportunity and reputation cost. I found no reliable proxies to measure these cost in my model. Secondly, criteria like completeness, accuracy and credibility of disclosed information are not in scope of my research; which are key issues in relation to litigation.

Proprietary cost

The third and arguably most important costs that are presumed to be connected with voluntary disclosure are known as proprietary cost. Proprietary information concerns information whose disclosure is perceived to incur costs that are associated with competitive disadvantages (Verrecchia, 1983; Dye, 1986; Darrough and Stoughton, 1990; Wagenhofer, 1990; Lang and Lundholm, 2000; Prencipe, 2004).

Theories of competitive advantage tend to rely, in varying degrees, on assumptions about the distribution of information among competitors. The literature on the resource-based view focuses heavily on isolating mechanisms that prevent rivals from acquiring or imitating an advantage (Barney, 1991). Strategic decisions are information-intensive, requiring data about the industry, competitors, and future prospects (Makadok and Barney, 2001). Strategic resources rarely offer an impermeable barrier for rivals who may hire away knowledgeable employees, invest in strategic information, or develop their own firm-specific substitutes. Indeed, many resources become more imitable as they are

deployed. For example, knowledge creation processes require that tacit knowledge is codified, transferred and used to generate more tacit knowledge (Nonaka, 1994). In addition, as firms scale up knowledge resources to meet the demands of rapid growth, the knowledge must be replicated, integrated, and transferred (Kogut and Zander, 1992; Grant, 1996). Thus, in the process of leveraging tacit knowledge into a competitive advantage, the knowledge must be codified which, in turn, renders it relatively more imitable. As a result, strategic resources are likely to be costly to imitate rather than absolutely inimitable. Rivals may be willing to incur these substantial costs if they are aware that the resource or capability is valuable (Ocasio, 1997).

Guarding information about capabilities may extend a firm's advantage if it prevents rivals from knowing what to imitate or how to develop substitutes for its capabilities (Barney, 1991). Revealing such information may attract rivals' attention and spur efforts to erode that advantage (Bhattacharya and Ritter, 1983). Secrecy, the active maintenance of information asymmetries between firm insiders and firm outsiders, may give the firm time to establish a dominant position and appropriate returns from an innovation (McEvily and Chakravarthy, 2002). Cohen et al. (2000) found that firms increasingly rely on secrecy and lead-time advantages to stay ahead of rivals. As such, voluntary disclosure of strategic information may come at a substantial cost.

Proprietary cost is arguably the most important reason mentioned in literature why companies do not disclose information (Leuz and Wysocki, 2008). There is however little consensus on how proprietary costs could be measured.

Related to proprietary cost as a reason for non-disclosure, many authors suggest that corporate disclosure reduces strategic flexibility. Sun-Tzu (1963) already suggested in the

second century BC that strategy should be considered a secret: “All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved.” Wrapp (1967) suggests that “The more explicit the statement of the strategy, the more difficult it becomes to persuade the organisation to turn to different goals when needs and conditions shift. The public and the stockholders, to be sure, must perceive the organisation as having a well-defined set of objectives and a clear sense of direction. But in reality the good top manager is seldom so certain of the direction which should be taken.” For Eisenberg (1984), clarity in communication is not always necessary for effectiveness. Eisenberg maintains that the multiple goals of an organisation can be coordinated without extensive communication or consensus. Eisenberg (1984) suggests to use “strategic ambiguity”, whereby contextual cues are purposefully omitted from communication to “allow for multiple interpretations on the part of the receiver.” This approach is supposed to lead to improved relationships and creative problem solving, and helps to find a balance between creativity and constraints, both necessary in organisations. As organisations consist of members that have conflicting interests, Weick (1995) suggests that the interdependence of the community is easier to maintain if its exact meaning is not expounded too explicitly.

Finally, Ferreira and Rezende (2007) see one major reason for managers not to disclose corporate strategy: “By disclosing their intentions, managers will be reluctant to change their minds in the future, which may lead them to make inefficient project implementation decisions. When distortion is sufficiently large, managers will choose not to disclose information.”

Leuz (2004) suggests that proprietary costs provide a theoretical rationale for why full disclosure does not prevail in equilibrium, even though firms have incentives to disclose information voluntarily to reduce information asymmetries, pre-empt costly private information acquisition, and lower their cost of raising capital (e.g. Verrecchia, 1983; Diamond and Verrecchia, 1991; Wagenhofer, 1990).

As proprietary costs have been modeled analytically, empirical (quantitative) research on their effects on disclosure is notably absent (Healy and Palepu, 2001; Leuz, 2004). This paucity of empirical research can be largely attributed to the elusive nature of proprietary costs and the difficulty of finding settings where firms' disclosure choices of potentially proprietary information can be observed. Most notably, the significance of proprietary cost has been identified for companies operating in various segments, as companies arguably seem reluctant to disclose which segments are more profitable than others (Leuz, 2004; Prencipe, 2004; Arya et al., 2008).

Alternatively, various scholars have tried to understand the importance of proprietary cost through qualitative research. For instance Higgins and Diffenbach (1989) find through interviews that executives perceive the main potential problem of communicating corporate strategy to be the risk that information can be used against you by competitors, unions, regulators, consumers and the financial community. Graham et al. (2005) found that the second most-supported concern is 'Giving away company secrets' (59% agree). Doing a similar survey on disclosure in the U.K. however, Armitage and Marston (2008) found that executives in the U.K. consider proprietary cost not a big issue, for instance less of a challenge than production cost.

In sum, literature on disclosure offers no credible proxies for proprietary cost, although some attempts were documented (Depoers, 2000; Berger and Hann, 2007). However, companies can be expected to balance these perceived costs against expected benefits for disclosure, that will be discussed in the following section.

3.2.2 Economic benefits of disclosure

Stakeholder theory and agency theory help to identify the following organisational outcomes of voluntary disclosure of corporate strategy that can be assessed as beneficial for a corporation: reduced cost of capital and improved corporate reputation. The following sections discuss how cost of capital is related to disclosure, especially through liquidity and volatility of stock. The remaining section discusses how corporate reputation is related to disclosure.

Cost of capital, liquidity and volatility of stock

A substantial amount of academic research is devoted to the relation between cost of capital and disclosure of (financial) information. According to Lambert et al. (2007): “The link between accounting information and the cost of capital of firms is one of the most fundamental issues in accounting.” The cost of capital for a firm, either cost of equity capital (Botosan, 1997; Botosan and Plumlee, 2002) or cost of debt (Sengupta, 1998), are important for a firm as it must earn a return greater than the cost of capital. The cost of capital largely depends on the profitability rate required by shareholders. Yet this is not directly observable, as it depends on expectations of share prices and dividends: the equilibrium price of a share covers such a value because it provides shareholders with the profitability that they require, given their expectations of dividends and future share prices. In particular, the ex post profitability of the share does not represent a satisfactory estimate of the profitability required. An indirect estimate, based on a theoretical relationship, is therefore needed.

There is little academic consensus whether disclosure allows a firm in practice to reduce the cost of its capital, which is mainly caused by the difficulty of measuring cost of capital (Botosan 2006, Leuz and Wysocki, 2008). The exact mechanism of the relationship between information disclosure and the cost of capital is therefore considered unclear (Gietzmann and Ireland, 2005). Several studies found empirically, using various measures, that greater disclosure allows firms to reduce their cost of capital (Lang and Lundholm, 1993; Botosan, 1997; LaPorta et al., 1999; Botosan and Plumlee, 2002; Francis et al., 2005). Other studies however found no relation between disclosure and cost of capital (Cohen, 2004; Daske, 2006) or even find that disclosure is positively related to cost of capital (Richardson and Welker, 2001; Van Mourik, 2007). Botosan and Plumlee (2002) found that cost of capital - both equity and debt - decreases when annual reports provide high disclosure, but increases when disclosure is provided through quarterly statements and other timely disclosures like press releases. The latter result is considered contrary to theory but is consistent with managers' claims that greater timely disclosures may increase the cost of equity capital, possibly through increased stock price volatility.

Interviewing 16 corporate directors of publicly listed companies in the UK, responsible for disclosure policy, Armitage and Marston (2008) found that the primary motive for voluntary disclosure is to enhance the company's reputation for openness, and not to reduce its cost of capital. The majority view is that additional disclosure beyond a good-practice level makes little difference to the company's cost of equity. Only one-quarter of those interviewed believe without qualification that disclosure reduces the cost of equity. But 56% believe that greater disclosure to bond rating agencies and bankers will reduce

the cost of debt or increase its availability. This is in line with earlier qualitative research (Eccles and Mavrinac, 1995; Graham et al., 2005).

Assessing cost of capital is a challenge in business research as it is not in the interest of companies to disclose what interest they pay to acquire capital. Core (2001) observes that there is little research guidance as to which of the noisy proxies for the information asymmetry component of the cost of capital are likely to be more accurate. Researchers indirectly address measurement problems with the cost of capital by repeating their tests on different proxies for the cost of capital (e.g. Healy et al., 1999; Leuz and Verrecchia, 2000). However, because these tests are not independent, it is difficult to assess significance. Overall, Leuz and Wysocki (2008) observe, “the evidence on the cross-sectional relation between voluntary disclosure, accounting attributes and cost of capital is still evolving and hence it is difficult to draw definitive and unambiguous conclusions whether the empirical evidence supports current theories on the link between information quality and cost of capital.” The authors find that empirical results appear to be sensitive to and can vary across different measures of cost of capital (i.e. realized returns versus ex ante cost of capital proxies), types of firms (i.e. different sizes), with the presence of other intermediaries (i.e. financial analysts), across types of disclosures or earnings attributes (i.e. annual reports versus timely disclosures versus conservative earnings), across types of investors (shareholders versus bondholders), and across different institutional environments (i.e. U.S. versus other markets).

To find proxies of economic benefits that are related to the cost of capital but offer less ambiguity, leading research on disclosure in finance and accounting analyzes the

association between disclosure and liquidity and volatility of stock. Leuz and Verrecchia (2000) state that “A major link between economic theory and contemporary accounting thought is the notion that a firm’s commitment to greater disclosure should lower costs of capital that arise from information asymmetries.”

Trading volume (liquidity of stock) and absolute price changes (volatility of stock) are both suggested to reflect the average change in investors’ expectations that are related to the economic importance of the public information. Empirical work on volume and volatility reactions to earnings announcements has validated these basic predictions (see reviews in Healy and Palepu, 2001; Verrecchia, 2001). However, trading volume and volatility reactions to public earnings announcements can also be understood in terms of differences across investors in interpreting public announcements instead of asymmetry of private information (Kandel and Pearson, 1995).

3.2.2.1 Liquidity of stock

Liquidity of stock can be defined as the ability to buy or sell an asset at short notice without granting a price concession (Brennan and Tamarowski, 2000). Liquidity preference in macroeconomic theory refers to the demand for money, considered as liquidity.

My framework offers two arguments that suggest that voluntary disclosure of corporate strategy is an instrument to manage liquidity of stock. First, instrumental stakeholder theory suggests that engagement with stakeholders leads to economic success. Higher levels of liquidity of stock are generally perceived as economically successful.

Second, agency theory suggests that disclosure mitigates adverse selection, reduces uncertainty and thereby price and thereby increases liquidity of stock.

The concept of liquidity was first developed by Keynes (1936) to explain determination of the interest rate by the supply and demand for money. Liquidity preference theory states that, other things being equal, investors prefer higher liquidity as it reduces risk of loss of capital. Diamond and Verrecchia's (1991) theoretical analysis shows that more disclosure increases market liquidity, by reducing information asymmetries and the volume of informed trading. Leuz and Verrecchia (2000) analyse that in real institutional settings, adverse selection is typically manifest in reduced levels of liquidity for firm shares (e.g. Copeland and Galai, 1983; Glosten and Milgrom, 1985). To overcome the reluctance of potential investors to hold firm shares in illiquid markets, firms must issue capital at a discount. Discounting results in fewer proceeds to the firm and hence higher costs of capital. The more liquid a stock, the more easily it is converted to cash, the less exposed it is to market fluctuations share (Gitman and Joehnk, 2007).

As information asymmetries create costs by introducing adverse selection into transactions between buyers and sellers of firm shares, adverse selection is typically manifest in reduced levels of liquidity for firm shares in real institutional settings, (Copeland and Galai, 1983; Glosten and Milgrom, 1985). If the company does not invest in disclosure to overcome the reluctance of potential investors to hold firm shares in illiquid markets, firms must issue capital at a discount. Discounting results in fewer proceeds to the firm and hence higher costs of capital. A commitment to increased levels of disclosure reduces the possibility of information asymmetries arising either between the firm and its shareholders, or among potential buyers and sellers of firm shares. Leuz and Verrecchia (2000) note that the theory is sufficiently broad as to allow the notion of "increased levels of disclosure" to be interpreted as either an increase in the quantity of disclosure or an increase in the quality of disclosure (or both). The use of the expression "increased levels" is primarily for expositional convenience, and should not be interpreted as exclusively the former (i.e., an increase in quantity). In addition, the theory makes no distinction as to how the information asymmetries arise (e.g., between a firm and its shareholders, among potential buyers and sellers of firm shares, etc.). The only requirement is that the information asymmetries manifest themselves as a liquidity premium in the price at which trades are executed. This, in turn, should reduce the discount at which firm shares are sold, and hence lower the costs of issuing capital (Diamond and Verrecchia, 1991; Baiman and Verrecchia, 1996).

Leuz and Wysocki (2008) state: "arguably, the firm-specific benefit of disclosure best supported by theory is the effect on market liquidity." Corporate disclosure can mitigate

the adverse selection problem and increase market liquidity by levelling the playing field among investors (Verrecchia, 2001). More information in the public domain makes it harder and more costly for traders to become privately informed and as a result, fewer investors are likely to be privately informed, which reduces the probability of trading with a better informed counter party. Second, more disclosure reduces the uncertainty about firm value, which in turn reduces the potential information advantage that an informed trader might have. Both effects reduce the extent to which uninformed investors need to price protect and hence increase market liquidity.

However, some authors theorize that more disclosure leads to less liquidity, observing that voluntary disclosure lowers the cost of information acquisition for financial analysts and hence increases their supply (Bhushan, 1989; Lang and Lundholm, 1993). Boot and Thakor (1998) therefore argue that if firms increase their disclosure, trading information will be less valuable and the incentive to look for information is therefore reduced. Healy and Palepu (2001) also consider that public voluntary disclosure pre-empts analysts' ability to distribute managers' private information to investors, leading to a decline in demand for their services. Verrecchia (2001) takes up this idea, emphasizing the heterogeneity of participants in the market. This contrasts earlier findings by Lang and Lundholm (1996) who envisaged a representative investor, and showed that the most transparent companies are those that are monitored the most by financial analysts.

Verrecchia (2001) analyzes that if the cost of acquiring information is heterogeneous (because of different competences, of access to different information etc.) then Boot and Thakor's argument (1998) fully applies. This observation is in line with Dempsey (1989),

who shows that the more analysts who follow a firm, the less likely is the market to be surprised by the firm's quarterly earnings announcement. This means that when more analysts follow a firm, there is less potential for profitable informed trading ahead of earnings announcements - in other words, the more levelled is the informational playing field. In this reasoning, disclosure will reduce the information that is globally available; this phenomenon is near the Grossman-Stiglitz paradox (1980), stating that if the market for information would be efficient, that is, all relevant information is already reflected in market prices, then no single agent would have sufficient incentive to acquire the information on which prices are based. In line with this paradox, Tong (2007) shows that if the most transparent companies do indeed benefit from higher quality forecasts, they suffer from a fall in the number of analysts, which in turn might have impact on the stock liquidity of the company.

Empirical studies on the association between liquidity of stock and disclosure primarily found that firms with high levels of disclosure are more likely to attract investors who are more confident that stock transactions occur at "fair" prices, thereby increasing the liquidity in the stock (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994; Lev, 1992; Elliot and Jacobson, 1994; Leuz and Verrecchia, 2000; Verrecchia, 2001; Sami and Zhou, 2008). As for the determinants of trading volume or liquidity of stock as a proxy for information asymmetry, prior studies have identified significant associations with volatility, firm size, listing status (Standard & Poor's 500 inclusion) and (institutional) ownership (Leuz and Verrecchia, 2000). Looking at smaller U.S. firms coming under

SEC regulations, Bushee and Leuz (2005), suggest that mandatory requirements do lead to more disclosure and for some firms a significant increase in liquidity of stock.

In research on liquidity and disclosure, various studies observe a positive relation between analyst following and disclosure, taking analyst following as a proxy for liquidity (Bhushan, 1989; Diamond and Verrecchia, 1991; Lang and Lundholm, 1996; Healy et al., 1999; Hope, 2003). Brennan and Tamarowski (2000) note that analysts influence liquidity of stock directly, but also that the most important determinant of liquidity of stock is trading volume. Brennan and Tamarowski (2000) underpin the possibility that analysts also increase trading volume because the services of most analysts are not paid for directly, but indirectly in the form of trading commissions. The finding that analysts can improve stock liquidity is consistent with their role as disseminators of information, whose reports reduce the asymmetry of information among investors about the future earnings of the firm. For the Netherlands, Van der Meer (2006) also found that professional investor relations is a key antecedent for analyst following.

Bushee and Miller (2005) analyzed whether corporations that hire investor relations-agencies have higher analyst following, as professional agencies appeared to stimulate high disclosure by issuing more press releases and generating more media coverage. Trade volume increased for companies that increased analyst following, both in absolute numbers as in the number and percentage of days that the stock was traded. Increased media attention and higher trading volumes mainly involved smaller, over-the-counter companies, probably because they have the most to gain in this respect.

Relatedly, Bushee et al. (2009) found that greater press coverage reduces information asymmetry (i.e., lower spreads and greater depth) around earnings announcements, with

broad dissemination of information having a bigger impact than the quantity or quality of press-generated information. Rahman et al. (2007) find that frequent disclosure, in terms of quarterly reporting, is associated with higher analyst following. However, Guillamon-Saorin and Sousa (2010) find no significant relationship between disclosure and analyst following.

Although empirical research seems to deliver convincing evidence on a positive association between liquidity and disclosure, Armitage and Marston (2008) found little support for this notion, interviewing 16 corporate executives of publicly listed companies in the UK, responsible for disclosure policy. Earlier qualitative research by Graham et al. (2005), who survey managers from 312 public U.S. firms, found that 44% of managers strongly agree with the statement “voluntarily communicating information increases the overall liquidity of our stock” (compared to 17% of managers who strongly disagree with the statement).

Related to my research on voluntary disclosure of corporate strategy, I follow the theoretical and empirical evidence that (financial) disclosure is positively associated with liquidity of stock. Based on the arguments mentioned above, I hypothesize as follows:

H9 Voluntary disclosure of corporate strategy is positively associated with liquidity of stock.

3.2.2.2 Volatility of stock

Volatility is a statistical measure of the dispersion of returns for a given security or market index. Volatility of share price can either be measured by using the standard deviation or variance between returns from that same security or market index. To the extent to which smooth transitions in share prices suggest the absence of information asymmetries between the firm and shareholders, or among investors, low levels of volatility suggest fewer information asymmetries. As with liquidity, however, volatility is influenced by many factors unrelated to information asymmetry.

My framework offers two arguments that suggest that voluntary disclosure of corporate strategy is an instrument to manage volatility of stock. First, instrumental stakeholder theory suggests that engagement with stakeholders leads to economic success. Lower levels of volatility of stock are generally perceived as economically successful.

Second, agency theory suggests that disclosure is related to information asymmetry and risk, which is reflected in stock-movements, being volatility.

Literature offers various reasons for managers to be concerned about volatility of share price. Firstly, high stock return volatility can increase a firm's perceived risk, thereby raising its cost of capital (Froot et al., 1992; Foster, 1986). Firms with high share price volatility have incentives to reduce information asymmetry between managers and investors since such actions are thought to lower financing (Gibbins et al., 1992; Clarkson et al. 1999). By reassuring a firm's investors regarding various aspects of its operations or performance, expanded disclosure leads to a reduction in information

asymmetry between managers and investors and, ultimately, to a reduction in information costs incurred by investors (e.g. Kim and Verrecchia 1994).

Secondly, to the extent that stock price becomes a noisier signal of firm value, high stock return volatility can also make stock-price-based compensation less effective and/or more costly (Baiman and Verrecchia, 1995).

Thirdly, shareholder class-action lawsuits have been shown to be associated with sudden, large stock price drops, a specific form of stock return volatility (Francis et al., 1994).

Fourthly, as Farvaque et al. (2009) observe: “being completely transparent creates volatility, which is desired by neither investors nor companies.” Being completely transparent provides less information on the firm’s ability to create value than a policy of smoothing out results or dividends.

Finally, some studies relate disclosure with accurate pricing, which in turn is thought to reduce the cost of capital. Improved stock price accuracy is considered beneficial if it results in an improvement in the allocation of capital or reduces the agency costs associated with the divergence of interests between controlling shareholders and minority shareholders or between managers and dispersed shareholders (Fox 1999; Ferrell, 2007).

There is some empirical evidence suggesting that share price accuracy can affect the allocation of capital and agency costs (Fox 1999). Empirical research has proxied accurate pricing in various ways, including volatility of stock (Healy and Palepu, 2001).

In these models, the earlier information becomes available to the market, the lower a stock’s return volatility will be, as any information about a firm’s future cash flow and profits will be more heavily discounted than it would be if the information were released at a later time. This implies, in turn, that stock price accuracy increases owing to the

incorporation of information into a firm's stock price at an earlier time. Although, as Ferrell (2007) observes, the finance literature has not reached a consensus on the proper interpretation of volatility, it is argued by various researchers that (lower) volatility is a proxy for stock price accuracy.

The common measure for volatility of share price is called "beta", indicating how the price of a security responds to market forces. Beta relates historical returns of the security with market returns, being the average return of a selection of stocks (Gitman and Joehnk, 2007). Reducing information asymmetry and uncertainty among investors through corporate disclosure is supposed to reduce market risk, which is measured by beta. A lower beta signifies a reduced shareholder demand for profitability, and therefore potentially a lower cost of capital. Lambert et al. (2007) theoretically show that greater accounting disclosure reduces the firm's cost of capital via the fall in the share's beta; Ferrell (2007) confirmed this result empirically.

As for the determinants of trading volume as a proxy for liquidity of stock, prior studies have identified significant associations with volatility, firm size, listing status (Standard & Poor's 500 inclusion) and (institutional) ownership (Leuz and Verrecchia, 2000).

Empirical research on the relation between (financial) disclosure and volatility delivered mixed results: some research suggests a positive association; other research suggests a negative association.

As for the determinants of volatility, research suggests that volatility is influenced by many factors unrelated to disclosure or information asymmetry (Leuz and Verrecchia, 2000; Ferrell, 2007). Moreover, Bushee and Noe (2000) demonstrate that the effect of

disclosure on volatility is complex and may depend on the type of (institutional) investors attracted to the firm. Identifying determinants of volatility as a proxy for information asymmetry, prior studies primarily associate volatility with firm size and ownership concentration (Leuz and Verrecchia, 2000).

Positive association between disclosure and volatility

Literature offers a few arguments why an increase in disclosure might increase stock volatility (Baumann and Nier, 2004). First, an increase in disclosure implies that more information is released, which in and of itself might move the price and increase volatility. Second, an increase in the disclosure of information relies on sophisticated investors to interpret and put the disclosed information into context. Indeed, in view of attempts to encourage more quantitative disclosures by banks during the first decade of this century, the banks themselves have argued that specific disclosure requirements could provide the markets with more data that might be misconstrued by analysts. More disclosure might thus inject more market volatility.

Empirically, Holthausen and Verrecchia (1990) suggest a positive association between disclosure informativeness and price volatility. Lang and Lundholm (1993) find that analysts' assessments of corporate disclosure practices are weakly positively associated with firms' stock return volatility. They conjecture that stock return volatility proxies for information asymmetry, which managers are trying to reduce through improved disclosure. Lang and Lundholm later (1996) found that high disclosure decreases dispersion of analyses, reducing cost of estimation. At the same time, Lang and

Lundholm (1996) show that shareholders poorly receive a sudden increase in the frequency of disclosure.

Leuz and Verrecchia (2000) use a sample of German firms and a reporting change from German to U.S. generally accepted accounting principles, which is interpreted as an increase in disclosure, finding that volatility increased. Also Perotti and Von Thadden (2001) suggest that transparency results in “higher variability of profits and output.”

Therefore they assume that lenders prefer less information dissemination, as this protects firms when in a weak competitive position, while equity holders prefer more disclosure to maximize profitability when in a strong position.

Botosan and Plumlee (2002), using U.S. data, find that the cost of equity decreases with the level of disclosure in annual reports but increases with the level in quarterly reports, news announcements and other more timely disclosures. They point out that managers claim that a greater level of timely disclosures may increase the cost of equity capital, possibly because timely information promotes short-term trading which increases the volatility of the shares. Relatedly, Rahman et al. (2007) find firms with higher price volatility disclosing more regularly and frequently.

For emerging markets in China, Sami and Zhou (2008) find that companies experience a significant increase in price volatility subsequent to the implementation of standards that increase disclosure. O’Shea et al (2008) find that the number of disclosures, the number of price and non-price sensitive disclosures and the number of disclosures by category has a significant influence on daily price volatility. Moreover, the volatility impact of disclosure is greater for small and mid-sized firms than large firms.

Negative association between disclosure and volatility

Economic theory suggests that an increase in disclosure should reduce stock volatility. By mitigating uncertainty, disclosure may reduce the magnitude of the impact of news about a firm's performance, which would reduce stock price volatility. Simple theories of market microstructure theory suggest that by increasing the amount of public information, disclosure is likely to reduce information asymmetries in the market that result in pronounced price changes in response to changes in demand for the stock (Diamond and Verrecchia, 1991). Disclosure may reduce heterogeneity of beliefs about the true value of the firm. It may thus reduce both the volume traded and the volatility of the stock price (Baumann and Nier, 2004). Cormier et al (2007) suggest that qualitative disclosure reduces stock price volatility, regarding both financial and non-financial related disclosures. Used as a proxy for information asymmetry, Lambert et al. (2007) and Cormier et al. (2009) find that disclosure leads to a reduction in share price volatility. In a qualitative survey, Eccles and Mavrinac (1995) found that a selection of corporate managers, financial analysts, portfolio managers and investors expected that improved corporate disclosure could lead to, among others, decreases in share price volatility. Several researchers relate disclosure with firms' bid-ask spreads, which, like volatility, may be thought of as a measure of asymmetric information (Baumann and Nier, 2004), finding a negative association (Sengupta, 1998; Healy et al., 1999; Leuz and Verrecchia, 2000; Cohen, 2004; Francis et al., 2005). However, Healy et al. (1999) find no evidence for a change in the beta factor due to increased disclosure ratings. Auer (1998) examines changes in share price volatility and the firm's beta factor for Swiss firms that have switched to IAS. He finds a small, but insignificant reduction in volatility and no change

in beta factor. Schleicher and Walker (2002) and Hussainey et al. (2003) find that improved levels of annual report disclosure lead to higher levels of share price anticipation of earnings, and thereby less volatility in share price, especially for loss making firms.

In summary, there are mixed views and results on how (financial) disclosure and volatility of stock are related. Based on stakeholder theory, my general proposition is that voluntary disclosure of corporate strategy adds to engagement and reduced information asymmetry among stakeholders. However, as described in section 2.3.2, Farvaque et al. (2009) observe: “being completely transparent creates volatility, which is desired by neither investors nor companies.” This analysis has been confirmed by Botosan and Plumlee (2002) who found that increased disclosure leads to higher volatility of stock. I follow this analysis that stakeholders can easily be confused by too much transparency, which can result in increased volatility of stock. Based on these arguments, I therefore hypothesize as follows:

H10 Voluntary disclosure of corporate strategy is positively associated with volatility of stock.

3.2.2.3 Corporate reputation

Different from the financial consequences, but increasingly perceived to be an important organisational outcome of voluntary disclosure, is corporate reputation, defined as: “A relatively stable, issue specific aggregate perceptual representation of a company’s past actions and future prospects compared against some standard” (Fombrun, 1996).

The key arguments from my framework that suggest that voluntary disclosure of corporate strategy influences corporate reputation is given by stakeholder theory, holding that engagement with stakeholders breeds a positive attitude. Legitimacy theory refines this notion, suggesting that engagement with stakeholders creates legitimacy: a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). I propose that engagement with stakeholders and creating legitimacy results in sustainable corporate reputation.

Fombrun and Van Riel (1997) analyse that theory on corporate reputation draws from various theories in both conceptual and empirical papers, including institutional theory, signalling theory, stakeholder theory, legitimacy theory, game theory, economic theory, mass communication theory, strategic management theory and impression management.

In their textbook on stakeholder theory, Freeman et al. (2010) propose that: “An excellent reputation in the marketplace can be a source of competitive advantage and increased economic value.” This is explained by stakeholder theory because firms that have reputations as good citizens across a broad group of stakeholders are more attractive business partners and associates (Hosmer, 1994; Fombrun and Shanley, 1990; Puncteva, 2008). For example, customers may be more likely to shop at a store with an excellent

reputation or suppliers may offer greater discounts to a firm that is known to be responsible in its treatment of stakeholders. Similarly, the best potential employees may be drawn to firms with reputations for excellent employee treatment (Greening and Turban, 2000). It also seems probable that firms with excellent customer relationships should be able to tap those relationships such that their new product success rates will be higher (Harrison and St.John, 1994).

A trustworthy reputation becomes a source of competitive advantage as the firm is presented with a larger number of better business opportunities from which to select. From a resource-based perspective, reputation is considered to be a valuable and rare intangible resource because it is difficult to imitate and highly causally ambiguous, which in turn, leads to a sustained competitive advantage (Deephouse, 2000; Roberts and Dowling, 2002). The greater the ambiguity experienced by constituents, the greater the importance of reputation as it reduces uncertainty by signalling (Rindova et al., 2005). It seems likely also that increased trust leads to fewer transaction costs, by reducing the resources needed to create and enforce contracts and by eliminating the need for elaborate safeguards and contingencies that require detailed monitoring (Post et al., 2002).

Preston and Sapienza (1990) found positive correlations between ten-year rates of return and the pursuit of the interests of various stakeholders, using data collected by Fortune magazine's reputation rankings. Fombrun and Shanley (1990) also provided evidence in support of the idea that the eight different dimensions of Fortune's survey are highly related, concluding that the eight attributes, reflecting the interests of various

stakeholders, are components of a single factor of reputation. These findings have been criticized because of the possibility of a “halo” effect (Fombrun and Shanley, 1990; Brown and Perry, 1994), assuming that the various variables are more a function of the overall perception of the firm than of – for instance – socially desirable behaviour. However, this issue is not a problem for stakeholder theory as Freeman (1984) conceptualized it, because the theory specifically predicts that there will be a positive relationship between the variables.

According to Fombrun and Van Riel (1997), economists view reputations as either traits or signals. Game theorists describe reputations as character traits that distinguish among types of firms and can explain their strategic behaviour. Signalling theorists point at the informational content of reputations. Game and signalling theorists both acknowledge that reputations are actually perceptions of firms held by external observers. Weigelt and Camerer (1988) state “in game theory the reputation of a player is the perception others have of the player's values . . . which determine his/ her choice of strategies.”

According to many (reputation) scholars, reputation is empirically related to sustained competitive advantage and organisational performance (Fombrun and Shanley, 1990; Brown and Perry, 1994; Fombrun, 1996; Deephouse, 2000; Roberts and Dowling, 2002; an overview is given by Sabate and Puente, 2003). Reputation may have other potentially favourable consequences, such as enabling to charge premium prices (Milgrom and Roberts, 1982), attract better applicants (Stigler, 1961), enhance access to capital markets (Beatty and Ritter, 1986) and attract investors (Milgrom and Roberts, 1982). Empirical

studies show that even when confronted with negative information, observers resist changing their reputational assessments (Wartick, 1992).

Another reflection of the perceived importance of reputation is given by Fortune Magazine, which since 1983 has been publishing a corporate ranking system based on completely different standards than the traditional method of ranking companies in order of sales volume. That a high esteem for corporate image is however no guarantee for long-term success can be illustrated by the fact that Enron was selected by Fortune as most admired company in America in 1996, going bankrupt in 2004. Similarly, Dutch reputation scholar Van Riel indirectly acknowledges that reputation is a slippery concept, explaining the turbulence around ABN AMRO, the largest Dutch bank that was shredded by three competitors in 2007: “Earlier this year, there was national pride on ABN AMRO taking over Italian bank Antoveneta, today national shame prevails” (Smit, 2007).

A critical note on the presumed relation between “Fame and Fortune” (Fombrun and Van Riel, 2004) comes from Hutton et al. (2001), commenting “unfortunately, such studies are largely meaningless and circular in their logic, given that the Fortune and other reputation measures they are studying are largely defined by financial performance.” In describing “the reputational landscape”, Fombrun and Van Riel (1997) acknowledge that in research on the relation between fame (reputation) and fortune (performance) “empirical studies have had difficulty untangling a causal ordering: both are produced by the same underlying initiatives.”

Although corporate reputation has been researched intensively since the 1990s in relation with a variety of company characteristics and with performance, little research has

explored how communication with the environment contributes to corporate reputation and no research has assessed how voluntary disclosure of corporate strategy contributes to corporate reputation. There are however a few scholars who identify arguments that communication and strategy are related and potentially of influence on corporate reputation. Observing that scholars of strategy call attention to the comparative benefits of acquiring favourable reputations, Rindova and Fombrun (1999) for instance discuss the link between strategy and communication, concluding that a company can build competitive advantage not only by creating desired organisational outcomes through the use of material resources but by managing communication so as to influence the interpretations and perceptions of constituents. Similarly, a company can create competitive advantage by socializing its constituents to its own culture and can use communication strategy to form long-term relationships with the constituents who shape the organisation's image and reputation (Rindova and Fombrun, 1999).

Ferguson et al. (2000) observed that at firm level, identity, strategy and reputation have been connected theoretically and empirically. Strategic choices can be perceived as concrete examples of firm identity and communication of strategy creates a reputation. According to Ferguson et al. (2000) strategy, and corporate identity, are related to reputation in the following way: a firm projects images that reflect its identity to its stakeholders. These images include not only advertising and public relations, but also strategic actions and verbal statements of strategy, such as those communicated through annual reports or speeches by CEOs. In turn, stakeholders view these images, interpret them and form reputations based on them. Corporate strategy is also perceived to directly influence reputation (Ferguson et al., 2000).

Based on reputation theory, Ferreira and Rezende (2007) theorize that: managers will voluntarily disclose their private information about corporate strategy to stakeholders because they want to induce stakeholders to undertake investments that are specific to certain strategic directions; managerial public announcements of information about strategy are credible because managers are concerned about their reputations; and thus voluntary public disclosures of information about corporate strategy can be value enhancing due to their positive effects on incentives of stakeholders.

Also Armitage and Marston (2008) suggest that open and proficient corporate communication might be one of the ways by which a company's overall reputation for quality can be sustained. A good reputation is supposed to help in doing business and therefore to bring commercial benefits.

Empirical evidence on the relation between disclosure and reputation

Research has explored how strategic plans may act as consensus catalysts inside and outside the company (Higgins and Bannister, 1992). Gioia and Chittipeddi (1991) find evidence that highly-regarded companies tend to use presentations of strategic plans as a “sensegiving” device, to support managers' efforts to influence how financial analysts interpret the company's strategy in relation to its competitive context. Eccles and Mavrinac (1995) found that a selection of corporate managers, financial analysts, portfolio managers and investors expected that improved corporate disclosure could lead to, among others, increased credibility. A study by Falkenstein (1996) finds that mutual funds tend to invest more in companies that are in the news, as well as older and larger companies with more established track records. The preferences of analysts for firms that

provide extensive information are shared by the institutional investors who are analysts' primary clients (Brennan and Tamarowski, 2000).

As for the determinants of corporate reputation, research identifies a series of potentially influencing factors, including voluntary disclosure, profitability, size, age, industry, listing status and dual-listing (Brown and Perry, 1994; Callison, 2003; Fombrun and Van Riel, 1997, 2004; Eccles et al., 2006). Hutton et al. (2001) observe that larger companies tend to have better reputations - presumably benefiting from greater visibility. In line with this observation, Van Riel (2007) suggests that, to become best in class, firstly, performance should be increased in all reputation drivers and secondly, expressiveness in communication about the performance of each driver should be improved. Hutton et al. (2001) suggest that relatively large expenditures on corporate communications may provide a kind of reputation insurance for big corporations, but did not find a strong correlation between reputation and overall spending on corporate communication activities. Particularly the greater an organisation's charitable-foundation giving is, the stronger its reputation tends to be. To a lesser extent, Hutton et al. (2001) found this correlation valid for investor relations, executive outreach and media relations. In general, these more pro-active modes of communication seem to correlate stronger with reputation than routine modes like annual reports, employee communications and corporate identity. Somewhat reactive modes like social responsibility activities, corporate advertising and industry relations even appear to correlate negatively with reputation (Hutton et al., 2001).

Interviewing 16 corporate directors in the U.K. responsible for disclosure policy,

Armitage and Marston (2008) found that the primary motives for disclosure to the stock market are to promote the company's reputation for openness and to maintain confidence in the company among shareholders and others. Executives see these organisational outcomes as important objectives in themselves. This is in line with earlier research by Graham et al. (2005), questioning executives in the USA.

In sum, there is a substantial body of knowledge that suggests that a communicative approach from companies towards their environment contributes to their corporate reputation. This is in line with the basic promises of stakeholder theory that stakeholders appreciate to be engaged, in particular by being updated on how an organisation wants to move forward. This leads to me to hypothesize the association between voluntary disclosure of corporate strategy and corporate reputation as follows:

H11 Voluntary disclosure of corporate strategy is positively associated with corporate reputation.

4 EMPIRICAL MODELING AND TESTING

In order to test the hypotheses that are developed in the previous chapter, proxies are developed to measure voluntary disclosure of corporate strategy and the determinants and organisational outcomes of voluntary disclosure of corporate strategy that are identified using stakeholder theory and agency theory. For voluntary disclosure of corporate strategy, a proxy is constructed that includes detailed analysis of disclosed corporate strategy in annual reports, press releases, corporate websites and corporate social responsibility reports. For determinants and outcomes of voluntary disclosure of corporate strategy, proxies are used that are widely used in academic literature. For proprietary cost however, no credible proxy was identified. This potential outcome is therefore left out of the model. Subsequently, the proxies are used to collect appropriate data that are brought together in panel regression.

4.1 Measuring voluntary disclosure of corporate strategy

In spite of the criticism of authors like Mintzberg et al. (2002, 2005) that strategy is too often reduced to an oversimplified roadmap for success, the common way for corporations, business consultants, business schools, journalists, analysts and most authors on corporate strategy to define corporate strategy is to include elements that have proven to be well understood by the global business community for decades. For instance Porter (1980) defines firm strategy as “a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.” A similar, yet somewhat more elaborated, definition of strategy was given earlier by Andrews (1980) as follows: “Corporate strategy is the pattern of decisions in a company that

determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be, and the nature of the economics and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.”

Hopkins and Hopkins (1997) observe that there is general agreement among strategic planning researchers and theorists that the strategic planning process consists of three major components: formulation, which includes developing a mission, setting major objectives, assessing the external and internal environments, and evaluating and selecting strategy alternatives; secondly implementation; and, thirdly, control. Formulation, implementation and control can be considered as key elements of corporate strategy that are important to know for stakeholders. Middleton (2003) finds that leading authors on strategy have one unifying theme, namely that all definitions of strategy concern themselves with the future direction of the organisation into that future. Strategy, then, is concerned with developing an understanding of the present situation (where are we now), the desired future position (where do we want to be) and the path to take the organisation from its present position into the future (how do we get there). In sum, at its most general level, strategy is concerned with planning how an organisation or an individual will achieve (“win”) its goals (Grant, 2010).

According to Freeman et al. (2010), stakeholder theory is fundamentally related to corporate strategy, in the sense that strategy is “concerned with the configuration of an organisation’s resources in relation to its external environment.” The concept of strategy can be considered as inherently connected with setting some direction for the

organisation, based on an analysis of organisational capabilities and environmental opportunities and threats. Thus adequate information about the environment, past and future changes, and emerging strategic issues and problems is vital to an effective strategy and strategy-making process. In the fundamental schemata that Freeman (1984) described for “Strategic Management: A Stakeholder Approach”, a key notion is that “to be successful over time it will be better to have a clear answer to the question, “what do we stand for?” or enterprise strategy.” Freeman et al. (2010) argue that stakeholder theory is fundamentally in line with both the market-based approach (e.g. Porter 1980, 1985) as well as the resource-based approach (e.g. Barney, 1991), observing that these theories merely differ in their focus – market-factors and internal resources respectively – but are essentially in line with acknowledging that adaptation to (various elements of) the environment is fundamental for sustainable success.

For measuring purposes, I use the following definition of disclosed corporate strategy: “The revelation of information an organisation decides to share with its stakeholders on the strategy it is pursuing and going to pursue in the future” (Santema and Van de Rijt, 2001, Santema et al., 2005). This definition fills a gap in research on disclosure, as Core (2001) notes that improved measures of disclosure quality need to be developed.

Defining modes of disclosure

Corporate strategy can be disseminated through financial reporting (e.g. the annual report or SEC filings like the 10-K or 10-Q) and through various scheduled and unscheduled disclosures (e.g. press releases, conference calls). Disclosure of corporate strategy is typically qualitative and narrative in nature which makes objective measurement difficult

for empiricists. It is generally recognized, in the literature, that disclosure is an abstract concept that cannot be measured directly: “it does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car” (Marston and Shrikes, 1991). Thus disclosure indices provide only an indirect, and to some extent subjective, measure of the underlying concept. Moreover, theoretical research provides little guidance on what form, quantity and frequency of disclosure is relevant for various stakeholders. Yet, there seems to be agreement that that timely, relevant, verifiable, reliable, unbiased, comparable and consistent disclosures and financial reports are all “desirable” properties of corporate disclosures and financial reports (Accounting Standards Board, 2009). However, many of these properties are in conflict with each other and, as a result, empirical researchers face challenges in identifying and capturing the most important dimensions of high quality corporate information (Leuz and Wysocki, 2008).

Disclosure is typically measured on a quantitative basis by using an index. The use of indices to measure disclosure extent has a long tradition in the accounting literature. For a review of accounting studies employing disclosure indices see Marston and Shrikes (1991) and Ahmed and Courtis (1999). They are typically constructed as a function of the number and sometimes the relevance of the items provided in the annual reports. The items considered for this purpose are previously selected by the researcher according to the specific objective of his/her analysis.

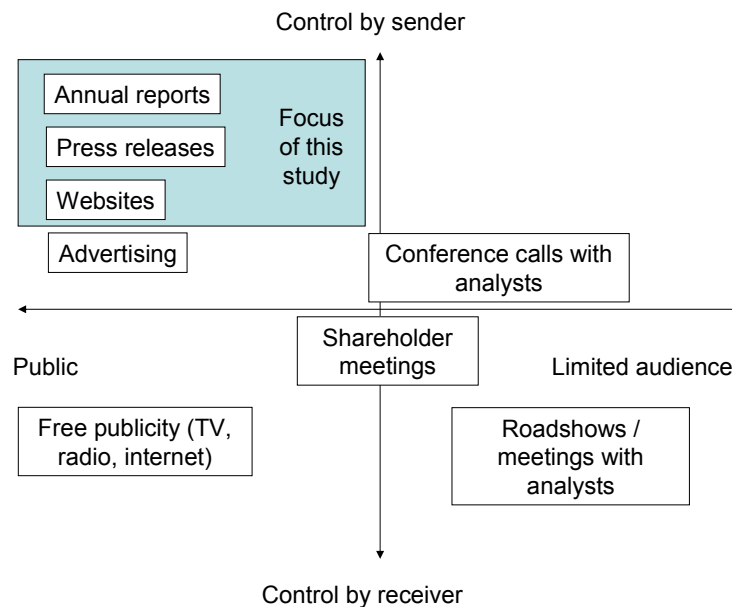
Nevertheless, they have proved to be a valid research tool and their use is still common in empirical accounting research. Their validity is proved not only by previous studies on

the determinants of disclosure level (Ahmed and Courtis, 1999), but also by specific analyses carried out to assess their “internal” and “external” validity (Botosan, 1997). Both weighted and unweighted indices are proposed by the literature to measure disclosure extent.

As for disclosure of strategic information, there are various modes of communication that are in use. For disclosure of corporate strategy there are basically three public modes of communication in which external opinions (e.g. from journalists or analysts) are of no direct influence: the annual report (either the corporate annual report or the corporate social responsibility annual report), press releases and, thirdly, the internet. Each of these modes will be discussed in the following sections. The following graph puts the modes of communication that are within scope of my research in perspective:

Figure 4.1: Modes of external communication for corporate strategy

The figure below shows how alternative modes of corporate communication differ in their reach of various groups of stakeholders and the extent of control the sender has on how the message is presented.



Disclosure through annual reports

Of all possible communication channels, the annual report is generally considered to be one of the most important sources of corporate information (Vergoossen and De Bos, 2005). Research on impression management found many examples that annual reports have become part of the company's efforts to create and manage a certain corporate image (Preston et al., 1996; Stanton et al., 2004). However, Santema and Van de Rijt (2001) found that Dutch listed firms generally do not disclose a lot of information about their corporate strategy. Although almost all Dutch listed companies do describe their strategy in general terms and reflect on the actions of last year with respect to their strategy, they score differently on the variables mission, goals and business unit strategies. Overall, little attention is paid to measurable objectives, the monitoring of those objectives, to business unit goals and to forward-looking action plans. Most companies disclosed more on their assessment of the past than of the future. Especially on risk management, Dutch publicly listed corporations are not very transparent to date, in spite of a strong increase of the average quantity of the narrative part of annual reports (Vergoossen and De Bos, 2005). Given management's freedom in discussing and presenting the company's results, the letter to the shareholders provides management with an excellent opportunity to interpret events to their own benefit (Ginzel et al., 1993). It can therefore be expected that if corporations want to disclose corporate strategy, the annual report is one of the main modes of communication to do so.

As for annual corporate social responsibility reports, a growing body of research suggests that (disclosure of) strategic non-financial information, for instance on corporate social

responsibility in corporate social responsibility reports, is associated with financial value; but the results of these studies have been mixed (McWilliams and Siegel, 2000). Gelb and Strawser (2001) found that there is a positive relationship between the disclosure level and corporate social responsibility, and that therefore firms disclose more and more because it is the socially responsible thing to do. However, Chris Hibbitt, analyzing over a thousand environmental reports of 90 corporations in Germany and the Benelux from 1989 through 1995, qualifies reporting on corporate social responsibility as “public relations crap” (Uffelen, 2004). Hibbitt (2004) finds that pressure from Non-Governmental Organisations does not influence corporate environmental disclosures, other than increasing the number of pages of the reports. Hibbitt (2004) concludes that corporations use corporate environmental disclosures to manage support for the corporation to defend economic inequality and the prevailing capitalist system. Related research, looking at mission statements, Campbell et al. (2002) finds that, notwithstanding the ruminations in the academic literature and elsewhere about the importance of stakeholder theory, economic stakeholders remain the major focus of FTSE 100 companies when it comes to mission disclosure.

To assess the voluntary disclosure of corporate strategy through annual reports, the approach of Santema (2002) is followed and used, who developed a framework in 1994 to assess to what extent large companies in the Netherlands communicate about their corporate strategy. Since 1994, Scenter yearly publishes a ranking and analysis of approximately the 100 largest publicly listed companies (and a few non-listed companies) in the Netherlands, using 10 criteria that are detailed in Appendix B. For each criterium, a

6-point Likert-scale is used, having a minimal score of 0 and a maximum score of 5. The scores are recalculated to a total score on a scale of 0 to 10.

It is important to note that disclosure of strategy does not include financial information such as forecasted earnings, although they can be communicated simultaneously, thereby creating a reaction from the market (Kothari et al., 2009). The approach taken by Scenter has two major advantages for usage in research on strategy disclosure. First, it contains many – if not most – key elements that widely used theories on corporate strategy proclaim. Second, this approach makes it very easy to measure disclosure on corporate strategy, in an easily replicable way.

As for the measurement of voluntary disclosure of corporate strategy through corporate social responsibility reports, I use the published assessments that are sponsored by the Dutch Ministry of Economic Affairs, executed since 2003 by Berenschot consulting (2003-2005) and PriceWaterhouseCoopers (since 2006) respectively, published as the “Transparantiebenchmark”. This benchmark analyses and ranks annual corporate social responsibility reports (when available) of approximately the largest 175 largest companies in the Netherlands, of which about a 100 are publicly listed, leading to scores per company on a scale of 0 to 100.

In case companies of my research sample were not assessed by either Scenter (for annual reports) or The Dutch Ministry of Economic Affairs (for corporate social responsibility reports) I did the assessment myself, using the criteria that are published by the respective institutes. Annual reports were obtained through the internet or sent by the applicable company upon request.

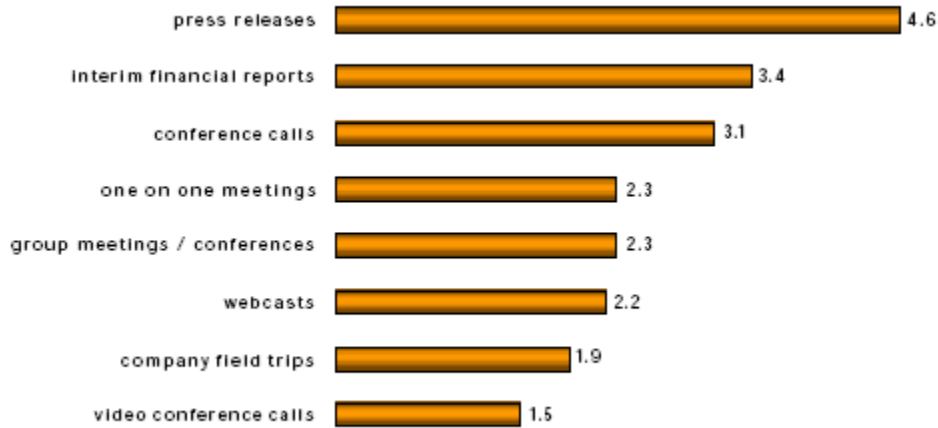
Disclosure through press releases

Companies use different kind of communication tools to inform the market about news topics concerning the company. Gelb (2000) suggests that because annual and quarterly reports are less flexible, and therefore less likely to change, they may represent a more credible commitment to provide more informative disclosures than other modes of communication. Evidence from prior literature shows that the press plays an important role in enhancing the visibility of the company (Bushee and Miller, 2007). In addition, many shareholders do not analyze annual reports in depth, relying on the media and analysts' reports for the information they use for investment decision-making (Bartlett and Chandler, 1997). Press releases also provide managers a forum in which to present their firm's performance and perhaps influence the perceptions of the shareholders and other stakeholder groups (Bowen et al., 2005). Moreover, advances in technology have increasingly made press releases directly accessible to investors.

Despite acknowledging the importance of the different types of press releases in the accounting literature (Francis et al., 2002; Bowen et al., 2005), researchers have conducted little systematic empirical research on this issue. Most studies on disclosure analyze annual reports; little research has content analyzed company press releases that are neither audited nor preread by the external auditors (Lightstone and Driscoll, 2008), although press releases offer an important stream of corporate information.

Figure 4.2: Perceived importance of modes of communication for corporate strategy

In the 2003-edition of the yearly study by Dutch consulting firm Rematch (in 2009 renamed as “Investablish”) on investor relations, (international) respondents (mainly analysts and financial journalists) have been asked to indicate what modes of communication they prefer to receive information about corporate strategy and performance. The figure above ranks the aggregated preference. Source: International Investor Relations Survey, Jansen and De Man, Rematch (2003).



Scale:	3 = Neither important or unimportant
1 = Completely not important	4 = Important
2 = Not important	5 = Very important

Press releases are important communication tools for the respondents (of the financial community). More than 70% of them want to receive more than five press releases of a single company per year. Another 25% think that 3 to 5 press releases on a yearly basis are enough. With an average of 4.6 press releases per year it is the most wanted communication tool of the eight under study. Jansen and De Man (2003) assume that the average is probably highly underestimated as they used the lower value of five in the top segment to calculate the average. All respondents wanted to receive at least one press release in a year. Therewith it can be considered indispensable to a company to send press releases to the financial market.

To assess voluntary disclosure of corporate strategy through corporate press releases, I used the criteria that Scenter consulting (Santema, 2002) developed for assessing voluntary disclosure of corporate strategy through annual reports (see Appendix B for details). I applied these criteria for all the corporate press releases that my sample of 70 publicly listed companies published during the years they were listed at Euronext Amsterdam in the timeframe 2003 through 2008. This resulted in a sample of close to 11.000 press releases that I assessed, leading to close to 8.000 press releases that earned more than zero points for disclosure of corporate strategy on a scale of 0 to 10.

Disclosure through websites

The power of the internet has led firms to adapt their disclosure strategies since it offers much more flexibility than traditional external reporting means. Internet is now seen as the best platform for the disclosure management and stewardship of financial and non-financial information (Cormier et al., 2007). Towards the end of the first decade of this century, most annual reports, corporate social responsibility reports and press releases of Dutch publicly listed companies are available through the internet. Increasingly, the internet appears to be the primary, if not only source of corporate information. In the Netherlands, construction firm Heijmans was in 2007 the first among the publicly listed firms to stop printing the annual report and refer only to their financial corporate website. Academic literature on Internet-based corporate disclosure and financial reporting argues that online communication with stakeholders has the advantage over their paper-based equivalents of, for example, unlimited capacity, global reach, flexibility, versatility,

timeliness, and speed, but they also have disadvantages: the risk of information overload and the difficulty of controlling the use of the information (Tagesson et al., 2009).

In spite of the rapidly rising importance of the internet as a platform for disclosure, the main literature on disclosure pays little attention for disclosure through press releases or websites.. As for ranking corporate disclosure on the internet of large Dutch companies, pioneering work has been delivered by Dutch leading financial daily newspaper “Het Financieele Dagblad” that awards the yearly Henri-Sijthoff-Prijs since 1954 for the most transparent annual reports by publicly listed companies in the Netherlands. Since 2002, disclosure through corporate websites is included in the consideration that wins the award. The Dutch internet consulting agency Jungle Minds, who publish their findings yearly, executes the analysis of disclosure through websites.

As for data on disclosure of corporate strategy through corporate websites, the assessments Jungle Rating (sponsored by Het Financieele Dagblad) are used. Jungle Rating assesses corporate disclosure through websites using criteria that are defined in various aspects by which disclosure is assessed. Special attention is given to accessibility and ease of use of the websites. Websites are ranked on a scale of 0 to 100. As Het Financieele Dagblad / Jungle Rating only rank the top 50 corporate websites of publicly listed companies in the Netherlands, I completed missing assessments for my sample of 70 publicly listed companies by combining the Scenter-criteria (Appendix B) with website evaluation criteria that are developed by Kim et al. (2003) to approach the method of Het Financieele Dagblad / Jungle Rating.

4.2 Creating a proxy for voluntary disclosure of corporate strategy

This section explains what the final sample is, what the sources of data of this research are and how the hypothesized determinants and organisational outcomes of voluntary disclosure are measured. A longitudinal approach, analyzing voluntary disclosure of corporations from 2003 through 2008, is chosen in order to observe medium- to long-term trends. A three- to five year period can be considered long enough to avoid short-term financial cycle fluctuations and to overcome natural business cycles that can jeopardize a firm's strategic performance (Barney, 1986) and short enough not to permit long-term economic climates and cycles to influence the results (Kangis and Williams, 2000).

The research sample is selected with the aim to find a robust and consistent set of data that enables a thorough quantitative analysis of the determinants and organisational outcomes of voluntary disclosure of corporate strategy. Therefore, a closer look is taken on how the 70 largest publicly listed companies in the Netherlands disclose their corporate strategy through annual reports, annual corporate social responsibility reports, websites and press releases (see appendix A for a complete list). As publicly listed companies form a both important and visible element in the global economy, they are a suitable and meaningful object for research in business administration in general and for this study in particular.

As detailed in the previous sections, a numerous number of variables are collected to represent the main variable *Voluntary Disclosure*. In sum, the four candidate proxies contain assessments for voluntary disclosure:

Table 4.1: Proxies for Voluntary Disclosure

<i>Disclosure</i>	<i>Proxy</i>	<i>Sample (*)</i>	<i>Source</i>
<i>Annual reports</i>	Scenter-criteria (10 criteria assessed on a scale from 0 to 5 for each annual report)	Assessments of 399 annual reports	Scenter (**)
<i>Press releases</i>	Scenter-criteria (10 criteria assessed on a scale from 0 to 5 for each corporate press release)	Assessments of 10.867 press releases	Own research
<i>Websites</i>	Het Financieele Dagblad / Jungle Minds criteria (assessments on a scale of 0 to 100)	Assessments of 399 corporate websites	Jungle Minds (**)
<i>Annual CSR-reports</i>	Berenschot and PwC-criteria (assessments on a scale of 0 to 100)	Assessments of 399 annual corporate social responsibility reports	Dutch Ministry of Economic Affairs (**)

(*) The 70 largest publicly listed corporations in the Netherlands over the 6-year period 2003-2008 delivered material for 399 company-years, as not all corporations were listed all six years during the selected period. Details are given in Appendix A.

(**) For companies or years where no assessment was available, I executed the assessment myself, following the Scenter-criteria that can be found in Appendix B. For the missing assessments of Het Financieele Dagblad / Jungle Rating, I also used the framework for web-evaluation by Kim et al. (2003). For the missing assessments for environmental reporting in corporate social responsibility reports, I followed the methodology that is reported in detail in the yearly “Transparantiebenchmark” reports that are published yearly since 2004 by the Dutch Ministry of Economic Affairs.

As detailed in Appendix B, the data for The Annual Report and Press Release are both subcategorized into the following ten variables:

- | | |
|------------------------|--------------------------------------|
| 1. Business Definition | 6. Corporate Strategy |
| 2. Goals | 7. Business Unit Strategy |
| 3. Objectives | 8. Monitoring |
| 4. SWOT Analysis | 9. Results of actions plans |
| 5. Challenges | 10. Action Plans for the coming year |

Hence, in total, there are 22 variables available that can serve as proxy for voluntary disclosure: 10 assessments for each annual report + 10 assessments for each press release + 1 assessment for each corporate website + 1 assessment for each corporate social responsibility report. The idea is to use all available information coming from these series, creating a continuous variable. Standard techniques to summarize these 22 variables into one series are moving average methods, principal component methods, and factor analysis. However, these methods cannot be adopted since the dataset in this study does not have a balanced panel structure. The dataset may not contain all observations for company i for all time periods since only the years that the sample of 70 publicly listed companies were actually listed on one of the three Euronext Amsterdam indices (see Appendix A for details). The creation of a proxy for voluntary disclosure requires a method that is able to deal with the unbalanced panel structure of the dataset and not to lose any of its information.

The proposed method to create a proxy comes from the research fields of engineering, medical science, physics, statistics and econometrics. A statistical model, which is known as an unobserved components (UC) model, is fit to the data. The model belongs to the class of State Space models (Harvey, 1989; Harvey and Koopman, 1996; Durbin and Koopman, 2001). The idea is that for each company in the dataset, the unobserved

components model is fit to the voluntary disclosure data and the Kalman filter and smoother are applied to extract a common signal out of the data. This common signal from 22 variables represents the variable *Voluntary Disclosure*. The Kalman filter and smoother is moreover able to deal with missing values in the dataset. So no information is lost during this process. The common signal is simply computed as a moving average of all available observations. The amenity of this method is that the weights of the moving average depend on parameters, which have to be estimated. These parameters are dependent on the information from the data. So the data determine the weighting pattern and thus the moving average filter.

All 22 variables of company i are stacked into the vector y_t . It is to be assumed that y_t can be decomposed into two parts, namely a common component and an idiosyncratic component. The common component is the part of the data that can be explained, whereas the idiosyncratic component is a vector of random variables. The common component is modelled as a trend and it represents the main movement in all 22 variables. This common trend is considered as the estimated proxy for voluntary disclosure. The proposed model is characterized by the following:

$$y_t = m + \mu_t + \varepsilon_t, \quad \varepsilon_t \sim N(0, \sigma_\varepsilon^2 I_{22}),$$

where y_t is an (22×1) vector and contains the observations of 22 variables, m is an (22×1) vector that contains individual constants for each series, ε_t is an (22×1) vector of idiosyncratic or noise terms and I_{22} is an (22×22) identity matrix. Furthermore, it is assumed that the elements in ε_t have the same variance and that they are mutually and serially uncorrelated. Same values for the variance of the error terms are assumed

because it is not desirable to estimate 22 different variances using the small number of available observations. Effects due to the level of the individual variables are mostly captured by the corresponding constants m . For example, data on disclosure through corporate websites are measured in a different level than data on each of the 10 criteria by which disclosure through annual reports or press releases is assessed, the presence of m will capture this difference in levels of the two variables.

The unobserved trend component μ_t is the main element of interest. In the economics and econometrics literature, the trend component is often modelled as a *local linear trend* process, (Gersch and Kitagawa, 1983; Durbin and Koopman, 2001; Commandeur and Koopman, 2007). In many applications, this trend specification is adopted to represent the slowly changing movements in the data. The proxy for voluntary disclosure can nicely be represented by such a specification, since it allows the common trend to vary flexibly over time. The process for μ_t is given by the following equations:

$$\begin{aligned}\mu_t &= \mu_{t-1} + \beta_{t-1}, \\ \beta_t &= \beta_{t-1} + \eta_{t-1}, \quad \eta_t \sim N(0, \sigma_\eta^2),\end{aligned}$$

where β_t is known as the slope of the trend and η_t is an error term in the slope. The slope can be regarded as the growth of the data. Notice that both μ_t and β_t are not observed.

They are extracted out of the data. Furthermore, only two parameters, σ_ε^2 and σ_η^2 , need to be estimated in the model. The estimation of these is done by maximum likelihood.

Conditionally on the estimated parameters, Kalman filter and smoother recursions are needed to extract the common trend μ_t , which is the proxy for voluntary disclosure. The Kalman filter and smoother assign weights to the observations and compute the common

trend as a weighted average of the data. The information in the dataset determines the values of the parameters σ_ε^2 and σ_η^2 . The weights are conditional on these estimated parameters. Thus, the data determine the weighting pattern to extract the common trend.

The two stages of estimation and extraction are repeated for all 70 companies of the dataset, resulting in 70 estimated voluntary disclosure series. This rather simple method enables the extraction of the common signal out of 22 variables. Technical details on unobserved components models, Kalman filter and smoother and common trends are found in Harvey (1989) and Durbin and Koopman (2001).

The computations are done by using the object-oriented matrix language *Ox* of Doornik (2007) together with the state space functions of SsfPack version 3, originally developed by Koopman et al. (2008).

4.3 Proxies of determinants and organisational outcomes of voluntary disclosure of corporate strategy

To proxy for the determinants and organisational outcomes of voluntary disclosure, the following proxies, definitions and sources are applied:

Table 4.2: Proxies for determinants of voluntary disclosure

<i>Determinants</i>	<i>Proxy</i>	<i>Definition</i>	<i>Source</i>
<i>Size</i>	Market-capitalization	Total euro market value of all of the company's outstanding shares, calculated by multiplying a company's shares outstanding by the current market price of one share	NYSE Euronext
<i>Industry</i>	Industry category	Industry-classification by Dow Jones Indexes and FTSE.	ICB (Industry Classification Benchmark)
<i>Ownership</i>	Free float	The percentage of total shares in issue available to ordinary investors, calculated as the total number of shares less the strategic holdings.	Company data (**)
<i>Leverage</i>	Interest coverage	A calculation of a company's ability to meet its interest payments on outstanding debt. Interest coverage ratio is equal to earnings before interest and taxes for a time period, in this case one year, divided by interest expenses for the same time period. The lower the interest coverage ratio, the larger the debt burden is .	Company data (**)
<i>Profitability</i>	Return On Equity	A measure of how well a company used (re)invested earnings to generate additional earnings, equal to a fiscal year's after-tax income (after preferred stock dividends but before common stock dividends) divided by book value, expressed as a percentage.	Company data (**)
<i>Age</i>	Year of first listing	The year when a company was publicly listed for the first time.	NYSE Euronext, Company data (**)
<i>Dual-listing</i>	Years of dual-listing	Years that a company of the research-sample was listed on Euronext Amsterdam in combination with another stock exchange.	Company data (**)
<i>Listing status</i>	Listing per index	Listing on either the AEX (large-cap), AMX (mid-cap), Ascx (small-cap) index or on the remaining list of publicly listed companies at Euronext Amsterdam (labelled as "small").	NYSE Euronext

(**) Company data are collected from various sources, including: Datastream, Bloomberg, Kempen Research, annual reports, press releases, corporate websites.

Table 4.3: Proxies for organisational outcomes of voluntary disclosure

<i>Organizational outcomes</i>	<i>Proxy</i>	<i>Definition</i>	<i>Source</i>
<i>Liquidity of stock</i>	Trading volume / market capitalization	The total trade per year (“electronic order book”) at NYSE Euronext divided by the market capitalization in that same year (year-end).	NYSE Euronext
<i>Volatility of stock</i>	Beta	Beta measures volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. In this case, adjusted beta is used, derived from raw or historical beta then modified by the assumption that a security's true beta will move toward the market average of one, over time. It is an estimate of a security's future beta. The formula is as follows: Adjusted beta = (.67) * Raw beta + (.33) * 1.0	Bloomberg
<i>Reputation</i>	Ranking in the MT500	Dutch Magazine “Management team” ranks since 2001 the 500 companies (profit and non-profit, listed and not-listed) in the Netherlands with “the best image.” The ranking is accomplished by a yearly survey among 1.000 to 1.200 qualified managers (all having a higher education), executed by independent research agency Nipo.	Yearly MT-500 publications by “Management Team” (see also www.mt.nl), published by the independent publisher MT Mediagroep BV (***)

(***) MT Mediagroep belonged until 2009 to VNU Media Groep, the publisher of business magazines that split off from Nielsen Company in 2006.

All proxies for determinants and organisational outcomes are calculated on a calendar-year-basis; data for companies with broken fiscal years (meaning the fiscal year does not match the calendar-year) are recalculated to match the calendar-year-structure. The reputation-rankings of MT500 are used for the year in which they are published. For example: the MT500 published in April 2003 is used for analysis over the year 2003.

4.4 Panel Regression

In the empirical part of the study, a panel data regression model is fit to the data. Panel data analysis is a method of studying a particular subject within multiple sites, periodically observed over a defined time frame. Within the social sciences, panel analysis has enabled researchers to undertake longitudinal analyses in a wide variety of fields. In economics, panel data analysis is used to study the behaviour of firms and wages of people over time. With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series. The combination of time series with cross-sections can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions (Gujarati, 2003). Panel data analysis endows regression analysis with both a spatial and temporal dimension. The temporal dimension pertains to periodic observations of a set of variables characterizing these cross-sectional units over a particular time span (Yaffee, 2003, Hardy and Bryman, 2004).

The collected dataset consists of annual observations starting from 2003 through 2008 for 70 Dutch public listed companies. Therefore, both the time effect and the heterogeneity across the units must be taken into account. The basic framework for the panel regression model is given by

$$y_{i,t} = X_{i,t}\beta + \varepsilon_{i,t}, \quad i = 1, \dots, N, \quad t = 1, \dots, T,$$
$$\varepsilon_{i,t} = v_i + u_{i,t},$$

where $y_{i,t}$ is the dependent variable, $X_{i,t}$ contains values for k independent variables for unit i at time t . In the literature, $y_{i,t}$ is also called as the regressand and $X_{i,t}$ is called the regressor. The regressors X can also contain lagged variables or dummy variables to

measure the industry/sector effect. The unknown parameter vector is denoted by β . The error term $\varepsilon_{i,t}$ consists of two components, a unit specific term v_i and a random term $u_{i,t}$. The former can be treated as a fixed effect or as a random effect, whereas the latter is assumed to be normally distributed noise.

In the case of a fixed effects specification, v_i is estimated as parameters and they may be correlated to the regressors. The resulting model is often referred to as the Least Squares Dummy Variable (LSDV) model. When v_i is treated to be a random effect, it is assumed to be uncorrelated with the regressors and it comes into the model as a random draw from a distribution with mean 0 and variance σ_v^2 . Therefore, the number of parameters to be estimated will be reduced. The Generalized Least Squares (GLS) is the correct method to estimate the unknown parameters. More advanced techniques such as GMM are not needed for this purpose, since these are mostly adopted in dynamic panel data models. Classical papers on panel data models include Balestra and Nerlove (1966), Fuller and Battese (1974) and Mundlak (1978). The test proposed by Hausman (1978) is used to decide whether the fixed effects or the random effects model is the correct specification. This test is widely used in the literature related to panel data regressions.

Moreover, it is necessary to check whether the residuals of the regression are not serially correlated and not heteroscedastic. Serial correlation is a serious problem, since its presence is an indication that the model is not correctly specified. When serial correlation is found, the estimation process must be adapted to correct for this problem. In this study, the test proposed by Wooldridge (2002) is applied in order to check for serial correlated

errors. The problem of heteroscedasticity can be solved by using robust standard errors. The econometric software package Eviews 7 is used to estimate the unknown parameter vector β and to carry out the Wooldridge test and the Hausman-test if needed. The software package also enables to calculate robust standard errors.

5 RESULTS

5.1 Determinants of voluntary disclosure

To find out which market and financial variables play a key role to determine Voluntary Disclosure, the dependent variable is regressed on a set of regressors that contains logarithm of Size, Profitability, Leverage, Ownership Concentration, Age and a large number of dummy variables. The dummy variables are included to assess the effects of the listing status, the dual listing status and the industry sector in which the companies are operating. The regression model is given by

$$VD_{i,t} = \beta_0 + \beta_1 \log(SIZE)_{i,t} + \beta_2 PROF_{i,t} + \beta_3 LEV_{i,t} + \beta_4 OC_{i,t} + \beta_5 AGE_{i,t} + \sum_{j=6}^{19} \beta_j IND_{j-5,i,t} + \beta_{20} LIS_{1,i,t} + \beta_{21} LIS_{2,i,t} + \beta_{22} LIS_{3,i,t} + \beta_{23} DUAL_{i,t} + \varepsilon_{i,t}$$

where the unknown parameters are denoted by $\beta_0, \dots, \beta_{23}$. The variable VD represents voluntary disclosure, $PROF$ is the variable profitability, LEV is the variable leverage and OC is the variable ownership concentration. Moreover, $IND_j, j=1, \dots, 14$ is the Industry dummy variable, $LIS_k, k=2, 3, 4$ is the Listing dummy variable and $DUAL$ is the dual-listing dummy variable that indicates whether the companies are listed on a foreign exchange index. A description of the dummy variables is given in Table 5.1.

Notice that not all dummy variables can be included in the set of regressors. If all dummy variables are included, then estimation of the parameters is not possible due to the presence of the constant term. The constant term and the whole set of dummy variables are linear dependent in that case. Reduction in the rank of the set of regressors is the result and least squares estimation cannot be carried out. This problem is also known as the *dummy-variable-trap*. Therefore, from the group of the industry dummy variables, the one corresponding to the sector *Technology Hardware and Equipment* is dropped.

Further, from the listing dummy variables, the one that corresponds to *AEX* does not belong to the set of regressors. Effects of the remaining dummy variables are relative to the reference industry sector or listing status, i.e. the removed dummy variables.

Table 5.1. Description of dummy variables

This table gives a description of the dummy variables used in the regression of voluntary disclosure. Fifteen dummy variables are available to investigate the industry effect. Four dummy variables correspond to the listing status. Notice that one dummy variable in each group is removed from the regressor list to avoid the problem of linear dependency of the set of regressors, since a constant term is included as well.

<i>IND</i> ₁	Oil & gas	<i>IND</i> ₉	Retail
<i>IND</i> ₂	Basic materials	<i>IND</i> ₁₀	Media
<i>IND</i> ₃	Construction & materials	<i>IND</i> ₁₁	Fixed line telecommunications
<i>IND</i> ₄	Industrial goods & services	<i>IND</i> ₁₂	Financials
<i>IND</i> ₅	Support services	<i>IND</i> ₁₃	Real estate investment trusts
<i>IND</i> ₆	Consumer goods	<i>IND</i> ₁₄	Software & computer services
<i>IND</i> ₇	Food producers	<i>IND</i> ₁₅	Technology hardware & equipment
<i>IND</i> ₈	Pharmaceuticals & biotechnology		
<i>LIS</i> ₁	Small	DUAL	Dual-listing status
<i>LIS</i> ₂	Ascx		
<i>LIS</i> ₃	AMX		
<i>LIS</i> ₄	AEX		

Estimation results of the panel regression including the dummy variables are given in Table 5.2. The random effects model is estimated. Since fixed effects are treated as parameters to be estimated, these effects can be regarded as dummy variables. In the case of model (4), there are too many dummy variables in the set of regressors. This leads to

reduction in rank, and therefore estimation problems arise. To avoid these, the random effects model is estimated. Company specific effects are no longer treated as parameters to be estimated and therefore no problems related to linear dependency are found. The Wooldridge-test indicates that serial correlation is present in the residuals. This problem is corrected in the estimation procedure. Robust standard errors are also computed in order to tackle the problem of heteroscedasticity.

From Table 5.2 it is observed that the size of public listed companies seems to have a positive effect on voluntary disclosure. This result is in line with the literature, see among many others Cooke (1989), Meek et al. (1995) and Lang and Lundholm (1996).

However, the effect found in this study is not significant. Large companies tend to provide more non-financial information than small companies. Large firms have more stakeholders which demand disclosure. Furthermore, large firms have more incentives to reduce information asymmetries. These firms are supposed to be more complex and therefore have more to explain. Agency theory suggests that large firms have higher agency costs as larger firms carry out a greater number of contracts and more complex than smaller. Also signalling theory suggests that information asymmetries will be larger, which justifies more disclosure to mitigate them. Large firms also have a more diverse ownership, and as a result, higher agency cost that they try to reduce by higher voluntary disclosure levels. In Table 5.3, an overview is given of the expected effects of the variables along with the estimated effects.

Table 5.2. Panel regression model - Voluntary Disclosure.

This table presents the estimation results of the panel regression corresponding to the dependent variable Voluntary Disclosure. Coefficients, standard errors and p-values are reported. Industry effects, Listing status effects and Dual-listing effects are investigated as well. In order to avoid linear dependency problems in the set of regressors, the random effects model is estimated. The problem of autocorrelation in the residuals is detected by the Wooldridge-test. Furthermore, the estimates of the standard errors are corrected for the presence of heteroscedasticity.

	Coefficient	Standard Error	p-value
<i>log (Size)</i>	0.1552	0.0990	0.118
<i>Profitability</i>	-0.0025	0.0011	0.022
<i>Leverage</i>	-0.0730	0.0642	0.256
<i>Ownership Concentration</i>	-0.0012	0.0010	0.245
<i>Age</i>	0.0107	0.0053	0.042
<i>IND₁</i>	0.7519	0.5962	0.208
<i>IND₂</i>	1.2975	0.6054	0.033
<i>IND₃</i>	1.0237	0.4299	0.018
<i>IND₄</i>	1.5710	0.5867	0.008
<i>IND₅</i>	0.4822	0.1947	0.014
<i>IND₆</i>	-0.0880	0.3188	0.783
<i>IND₇</i>	1.4947	0.5617	0.008
<i>IND₈</i>	-0.9167	0.4800	0.057
<i>IND₉</i>	0.8095	0.1075	0.000
<i>IND₁₀</i>	0.5615	0.2899	0.054
<i>IND₁₁</i>	2.2339	0.8614	0.010
<i>IND₁₂</i>	0.6763	0.2002	0.001
<i>IND₁₃</i>	-0.3961	0.5720	0.489
<i>IND₁₄</i>	0.5597	0.2456	0.023
<i>LIS₁</i>	-0.6390	0.2671	0.017
<i>LIS₂</i>	-0.6243	0.2861	0.030
<i>LIS₃</i>	-0.5762	0.2245	0.011
<i>DUAL</i>	1.0870	0.4721	0.022
R ²	0.279		
Adjusted R ²	0.229		
F-stat	5.723		
P-value	0.000		

Table 5.3. Hypothesized/expected and estimated effects of the regressors

This table presents the hypothesized/expected effects and the estimated effects of the regressors in the regression corresponding to voluntary disclosure.

	Expected sign	Estimated sign
Size	+	Insignificant
Leverage	+	Insignificant
Profitability	+	-
Ownership Concentration	-	Insignificant
Age	+	+

Table 5.2 shows that profitability negatively affects voluntary disclosure. Voluntary disclosure decreases when companies acquire a higher profit. This can be due to the relative inaction of high profit firms because they feel that investors are satisfied with reported high profits and so would not wish additional information (Wallace and Naser, 1995). Moreover, these firms do not want to provide additional detail that will have to be continued in later years. This result does not support the hypothesis that profitability *positively* affects voluntary disclosure. However, this is not surprising either, since evidence is found in the literature that profitability negatively affects voluntary disclosure. Another argument not to disclose success is based on the notion that managers face proprietary costs if the revelation of high abnormal profits attracts more competition and, hence, reduces the abnormal profits (Verrecchia, 1983; Wagenhofer, 1990).

Furthermore, from the results it is observed that both leverage and ownership concentration have a negative effect on voluntary disclosure. However, these effects are not significant. A possible explanation for the negative relationship of leverage and voluntary disclosure is the fact that debt is a mechanism for controlling the free cash flow

problem, which reduces the need for disclosure (Jensen, 1986). Zarzeski (1996) explains the negative association because creditors may be able to obtain private information.

From Table 5.2, it is observed that the variable age has a significant positive effect on voluntary disclosure. This result does not support the hypothesis that younger listed companies have more incentives to disclose more information voluntarily, see Table 5.3. It seems that older listed companies tend to disclose more information. This can be explained by the fact that older listed companies are used to disclose information in the past. If they disclose less information now, this may be regarded as bad news by investors.

Fifteen dummy variables in the dataset correspond to fifteen different sectors in which the companies are operating. The sector *Technology Hardware & Equipment* is the reference sector. It seems that some industry sectors do have a significant effect on voluntary disclosure compared to the reference industry sector. The sectors *Basic Materials* (dummy IND_2), *Construction and Materials* (dummy IND_3), *Industrial Goods & Services* (dummy IND_4), *Support Services* (dummy IND_5), *Food Producers* (dummy IND_7), *Retail* (dummy IND_9), *Media* (dummy IND_{10}), *Fixed Line Telecommunications* (dummy IND_{11}), *Financials* (dummy IND_{12}) and *Software & Computer Services* (dummy IND_{14}) have a significant positive effect, suggesting that companies in these sectors disclose significantly more information than the reference sector. Moreover, the companies in the sector *Pharmaceuticals & Biotechnology* (dummy IND_8) disclose significantly less information than the reference sector.

More interesting is the fact that the listing status also significantly affects voluntary disclosure. From the results, it can be seen that companies with listing status *Small*, *ASCX* and *AMX* disclose less information than the reference listing status *AEX*. The latter is the main stock exchange index of the Netherlands. This implies that when companies are listed on the *AEX*, they have more analyst following and more investors and therefore these companies tend to disclose more information. Furthermore, evidence has also been found that foreign exchange listing affects disclosure. Dual-listed companies significantly disclose more information than companies which are not listed on a foreign exchange index. This can be explained by the fact that dual-listed companies are expected to face more demand and pressure for information, more regulations on disclosure, more ownership dispersion and more competition in disclosure.

5.2 Liquidity of stock and voluntary disclosure

The effect of *Voluntary Disclosure* on *Liquidity* is assessed in this part of the empirical study. As mentioned earlier in this dissertation, more information in the public domain makes it harder and more costly for traders to become privately informed and as a result, fewer investors are likely to be privately informed, which reduces the probability of trading with a better informed counter party. And also more disclosure reduces the uncertainty about firm value, which in turn reduces the potential information advantage that an informed trader might have. Both effects reduce the extent to which uninformed investors need to price protect and hence increase market liquidity.

In the panel regression model for liquidity, the approach of Leuz and Verrecchia (2000) for financial disclosure is followed for my analysis of non-financial disclosure. To their approach I add a rich dataset for (voluntary non-financial) disclosure, using continuous variables, over a multiyear-period. Three control variables are added in the regression, which are the logarithm of size, volatility of stock and ownership concentration. The panel regression model is given by:

$$LIQ_{i,t} = \beta_0 + \beta_1 VD_{i,t} + \beta_2 \log(SIZE)_{i,t} + \beta_3 OC_{i,t} + \beta_4 VOL_{i,t} + \varepsilon_{i,t}$$

where *LIQ* is the liquidity variable and *VOL* represent the volatility. Standard generalized least squares cannot be applied now, since the variable voluntary disclosure is endogenous in the model. *Instrumental Variable (IV)*, also known as *Two-Stage-Least-Squares (2SLS)*, estimation must be applied in order to obtain consistent estimates.

Moreover, the Hausman-test points out that the fixed effect model is the correct specification. The estimation results are presented in Table 5.4.

Table 5.4. Panel regression - Liquidity.

This table presents the estimation results of the panel regression corresponding to the dependent variable liquidity. Coefficients, standard errors and p-values are reported. Since voluntary disclosure is an endogenous variable, instrumental variable regression technique is used to obtain consistent estimates. The Hausman-test suggests that the fixed effects model is the correct specification. The problem of autocorrelation in the residuals is not detected by the Wooldridge-test. Furthermore, the estimates of the standard errors are corrected for the presence of heteroscedasticity.

	Coefficient	Standard Error	p-value
Voluntary Disclosure	0.7004	0.4199	0.096
log (Size)	-1.1631	0.2149	0.000
Ownership Concentration	0.0076	0.0069	0.271
Volatility	1.9553	0.4030	0.000
R ²	0.620		
Adjusted R ²	0.511		

The estimation results in Table 5.4 indicate that voluntary disclosure positively affects liquidity. This supports the findings in the studies of Verrecchia (2001), Graham et al. (2005), Leuz & Wysocki (2008), and Armitage & Marston (2008) amongst many others. The positive relationship of voluntary disclosure and liquidity means that high levels of disclosure are more likely to attract investors who are more confident that stock transactions occur at fair prices, thereby increasing the liquidity in the stock. Increased voluntary disclosure lowers the cost of information acquisition for financial analysts and hence increases their supply and increases the liquidity. Moreover, it is observed that the size variable negatively affects the liquidity variable. This implies that large sized companies have a lower relative turnover of their shares. From an economic perspective, it becomes obvious when the fact is taken into account

that institutional investors in general cannot and will not liquidate their portfolio or substantial parts of their shares, unless an extreme situation is present. Ownership concentration does not affect liquidity significantly. Although the estimated effect is positive, it is not significantly different from zero. Furthermore, high volatility of stock significantly leads to a higher liquidity. Investors are more willing to trade their stocks when there is much volatility in the share price, because within a certain time span more opportunities may arise to trade the stock in order to achieve excess returns.

5.3 Volatility of stock and voluntary disclosure

High stock return volatility can increase a firm's perceived risk, thereby raising its cost of capital. Firms with high share price volatility have incentives to reduce information asymmetry between managers and investors since such actions are thought to lower financing costs. In this section, the effect of voluntary disclosure on the volatility of stock is empirically investigated. There are a few reasons to assume that a high level of disclosure will raise the volatility of stock. An improvement in corporate disclosure practices may attract short-term investors, whose aggressive trading strategies may lead to higher stock return volatility. Further, an increase in the disclosure of information relies on sophisticated investors to interpret and put the disclosed information into context. When the disclosed information is interpreted incorrectly by analysts, this can lead to more market volatility. Therefore, a high level of disclosure may induce a high level of volatility of stock.

In the panel regression model, two variables are added as control variables: logarithm of size and ownership concentration. The panel regression equation is given by the following:

$$VOL_{i,t} = \beta_0 + \beta_1 VD_{i,t} + \beta_2 \log(SIZE)_{i,t} + \beta_3 OC_{i,t} + \varepsilon_{i,t}.$$

This approach is very similar to the model considered by Leuz and Verrecchia (2000) which was also followed by many authors on financial disclosure, including Cormier et al. (2007, 2009) and Sami and Zhou (2008). To their approach I add a rich dataset for (non-financial) disclosure, using continuous variables, over a multiyear-period.

Estimation results are presented in Table 5.5. The Hausman-test suggests that the random effects model is the correct specification. In the estimation procedure, the presence of

heteroscedasticity residuals is taken into account by computing robust standard errors. Since voluntary disclosure is an endogenous variable, *Instrumental Variable* estimation is carried out to obtain consistent estimates.

Table 5.5. Panel regression - Volatility.

This table presents the estimation results of the panel regression corresponding to the dependent variable volatility. Coefficients, standard errors and p-values are reported. Since voluntary disclosure is an endogenous variable, instrumental variable regression technique is used to obtain consistent estimates. The Hausman-test suggests that the random effects model is the correct specification. The problem of autocorrelation in the residuals is not detected by the Wooldridge-test. Furthermore, the estimates of the standard errors are corrected for the presence of heteroscedasticity.

	Coefficient	Standard Error	p-value
Voluntary Disclosure	0.0180	0.0214	0.400
log (Size)	0.0318	0.0159	0.047
Ownership Concentration	0.0024	0.0009	0.007
R ²	0.100		
Adjusted R ²	0.091		

From the results in Table 5.5, it is observed that voluntary disclosure positively affects volatility of stock. However, this effect is not significant. The R² is quite low since it is empirically a difficult task to model the volatility variable (Ferrell, 2007). More elaborate or complex models to explain volatility are considered out of scope of this study, which follows the established literature on (financial) disclosure (Leuz and Verrecchia, 2000), tested for the first time on the Dutch market. Although the sign of the disclosure variable is positive, this does not provide evidence that it significantly affects the volatility of stock. Moreover, the variables size and ownership concentration have a significant

positive effect on volatility. This suggests that large companies have more volatility in their share price, which is not in line with the literature. In this study however, the time span covers a relatively small number of years, in which the market itself underwent more fluctuations than expected. In particular, many downward shocks are observed in this period due to the recent global financial crisis. As a result, large companies were more subject to these shocks than small companies, since selling large caps is easier than selling small caps.

5.4 Corporate reputation and voluntary disclosure

Reputation data are collected for all Dutch public listed companies. The original dataset considers the ranks in the Top 500 ranking of the companies for all years in the sample. Rank one corresponds to the top-ranked company, while higher ranks are assigned to companies with a worse reputation. Thus companies with a good reputation have a low rank, while companies with worse reputation have high ranks. However, it is easier to interpret a reputation variable when this variable takes values between 1 and 100 and when companies with a good reputation correspond to high ranks. In order to achieve this, the original ranking data is transformed as follows: 1) Divide the original data by 5, such that the ranking ranges from 0 to 100. 2) Subtract the transformed rank from 100, such that companies with the best reputation have the highest rank.

To my knowledge, there is no previous empirical research published on how disclosure is associated with corporate reputation. In this study, it is assumed that voluntary disclosure, profitability, size and age possibly play a key-role to determine reputation, as all these variables create visibility, without which corporate reputation is difficult to establish.

To measure industry effects, listing status effects and dual-listing effects, dummy variables are added in the regression. The panel regression model for reputation is given

by:

$$REP_{i,t} = \beta_0 + \beta_1 VD_{i,t} + \beta_2 PROF_{i,t} + \beta_3 \log(SIZE)_{i,t} + \beta_4 AGE_{i,t} + \sum_{j=5}^{18} \beta_j IND_{j-4,i,t} + \beta_{19} LIS_{i,t} + \beta_{20} LIS_{2,i,t} + \beta_{21} LIS_{3,i,t} + \beta_{22} DUAL_{i,t} + \varepsilon_{i,t}$$

where *REP* is the reputation variable. Other variables are already defined in earlier sections. The estimation procedure is comparable to the regression corresponding to voluntary disclosure. The random effects model is adopted since too many dummy variables are already present in the model and hence the fixed effects model cannot be

estimated. Moreover, voluntary disclosure is an endogenous regressor and therefore IV estimation must be carried out. Further, the Wooldridge-test does not suggest that autocorrelation is present in the residuals of the regression. The regression results are reported in Table 5.6.

Table 5.6. Panel regression - Reputation.

This table presents the estimation results of the panel regression corresponding to the dependent variable reputation. Coefficients, standard errors and p-values are reported. Industry effects, Listing status effects and Dual-listing effects are investigated as well. In order to avoid linear dependency problems in the set of regressors, the random effects model is estimated. The Wooldridge-test indicates that autocorrelation is not present in the residuals. Robust standard errors are computed to correct for the presence of heteroscedasticity.

	Coefficient	Standard Error	p-value
<i>Voluntary Disclosure</i>	3.1957	1.2875	0.014
<i>Profitability</i>	-0.0212	0.0239	0.377
<i>log (Size)</i>	2.6315	1.9988	0.190
<i>Age</i>	-0.1156	0.0257	0.000
<i>IND₁</i>	-23.0026	21.8101	0.293
<i>IND₂</i>	4.7495	8.2285	0.565
<i>IND₃</i>	14.9552	11.1580	0.182
<i>IND₄</i>	-14.8914	12.6053	0.239
<i>IND₅</i>	1.1904	9.1854	0.897
<i>IND₆</i>	3.9413	6.3495	0.536
<i>IND₇</i>	-16.3072	15.1771	0.284
<i>IND₈</i>	-19.9411	24.1345	0.410
<i>IND₉</i>	-8.2691	10.9200	0.450
<i>IND₁₀</i>	-16.8420	10.7040	0.117
<i>IND₁₁</i>	7.2083	6.9901	0.304
<i>IND₁₂</i>	-5.2042	6.2379	0.405
<i>IND₁₃</i>	-37.0609	21.7573	0.090
<i>IND₁₄</i>	14.5115	5.4035	0.008
<i>LIS₁</i>	-25.5312	6.4831	0.000
<i>LIS₂</i>	-16.7077	8.3714	0.047
<i>LIS₃</i>	-8.6939	3.2498	0.008
<i>DUAL</i>	8.5148	2.8408	0.003
R ²	0.255		
Adjusted R ²	0.166		

From Table 5.6, it is seen that voluntary disclosure positively affects reputation. A high level of disclosure leads to a better reputation. The reason can be based on reputation theory: managers will voluntarily disclose their private information about corporate strategy to stakeholders because they want to encourage stakeholders to undertake investments that are specific to certain strategic directions, see Ferreira and Rezende (2007). Managerial public announcements of information about strategy are credible because managers are concerned about their reputations; and thus voluntary public disclosures of information about corporate strategy can be value enhancing due to their positive effects on incentives of stakeholders. Further, open and proficient corporate communication might be one of the ways by which a company's overall reputation for quality can be sustained. A good reputation is supposed to help in doing business and therefore to bring commercial benefits (Fombrun and Van Riel, 2004; Armitage and Marston, 2008). The primary motives for disclosure to the stock market are to promote the company's reputation for openness and to maintain confidence in the company among shareholders and others.

Furthermore, the variables *profitability* and *size* do not affect the reputation significantly. The control variable age has a negative effect on reputation. This is counterintuitive, since it is expected that companies, which are listed on the exchange index for a longer period of time, are assumed to have a better reputation. The negative relationship can still be explained by the fact that companies, which are listed for a shorter period of time, put more effort to obtain a better reputation in order to attract investors. A high level of

reputation level can lower the cost of capital. Once these goals are achieved, these companies may reduce their efforts to further increase their reputation level.

It is interesting to see that firms in the sector *Computer and Services* (dummy IND_{14}) have a significant better reputation than the firms in the reference sector *Technology Hardware and Equipment*. Further, companies in the sector *Real Estate Investment Trusts* (dummy IND_{13}) have a significant worse reputation than the reference sector. This may be due to the fraud in the construction and real estate sector that was announced publicly in the Netherlands in this period. The listing status has a significant effect on reputation as well. Companies with a listing status *Small*, *ASCX* and *AMX* all have worse reputation than companies listed on the *AEX*. It can also be concluded that companies with an *AEX*-listing have the best reputation, followed by the companies listed on *AMX* and *ASCX*. Companies with a '*Small*'-listing status have the worst reputation. Subsequently, the results suggest that companies with a dual-listing status have a significant better reputation. This implies that companies benefit from the fact that they are listed on a foreign exchange. This can also be explained indirectly via voluntary disclosure. Since dual-listed companies are forced to disclose more information, this leads to open and proficient corporate communication and this may lead to an improved reputation.

5.5 Answers to the research questions

This thesis poses two research questions:

1. What are determinants of voluntary disclosure of corporate strategy?
2. What are outcomes of voluntary disclosure of corporate strategy?

To answer these questions, the hypotheses and results, previously discussed in more detail, are summarised below.

As for determinants of voluntary disclosure of corporate strategy, the following hypotheses and empirical results apply:

- *H1 Company size is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is confirmed, although the effect found in this study is not significant.
- *H2 Voluntary disclosure of corporate strategy is related to the industry in which the company is operating.* This hypothesis is confirmed, as it seems that some industry sectors do have a significant effect on voluntary disclosure compared to the reference industry sector.
- *H3 Leverage is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is rejected, as leverage has a negative effect on voluntary disclosure, although this effect is not significant.
- *H4 Profitability is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is rejected, as profitability has a significant negative effect on voluntary disclosure.
- *H5 Ownership concentration is negatively associated with voluntary disclosure of corporate strategy.* This hypothesis is confirmed, as ownership concentration has a negative effect on voluntary disclosure, although this effect is not significant.
- *H6 Dual-listing status is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is confirmed as dual-listed companies significantly disclose more information than companies which are not listed on a foreign exchange index.
- *H7 National ranking status is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is confirmed as companies with small- or midkap-listing status significantly disclose less information than large cap companies.
- *H8 Listing age is positively associated with voluntary disclosure of corporate strategy.* This hypothesis is confirmed as age has a significant positive effect on voluntary disclosure.

In sum, to answer the first research question, this study found that industry, profitability, dual-listing status, national ranking status and listing age have significant effects on voluntary disclosure of corporate strategy. No significant effects are found for size, leverage and ownership concentration.

As for outcomes of voluntary disclosure of corporate strategy, the following hypotheses and empirical results apply:

- *H9 Voluntary disclosure of corporate strategy is positively associated with liquidity of stock.* This hypothesis is confirmed, whereby size and volatility of stock have a significant impact.
- *H10 Voluntary disclosure of corporate strategy is positively associated with volatility of stock.* This hypothesis is confirmed, although this effect is not significant.
- *H11 Voluntary disclosure of corporate strategy is positively associated with corporate reputation.* This hypothesis is confirmed, whereby age, industry, national listing status and dual-listing status have a significant impact.

In sum, to answer the second research question, this study found that liquidity of stock and corporate reputation are significantly influenced by voluntary disclosure of corporate strategy. No significant effect is found for volatility of stock as an outcome.

6 DISCUSSION AND CONCLUSION

This research is arguably the first study to develop a theoretical framework for voluntary disclosure of corporate strategy, identifying determinants and organisational outcomes. A comprehensive methodology is introduced with which the associations of hypothesized determinants and organisational outcomes with voluntary disclosure of corporate strategy are empirically tested in a longitudinal study of the largest publicly listed companies in the Netherlands. This section elaborates on the contributions and limitations of my research, including suggestions for further research. Finally, some concluding remarks are made.

6.1 Contributions

Business leaders face increasing pressure to disclose strategic information. However, academic and business literature provides little guidance in choosing the optimal spot between the extremes of transparency or opacity. To fill this gap, my research explores what the firm-specific determinants and organisational outcomes are of voluntary disclosure of corporate strategy for publicly listed companies. My literature review shows that there is no (generally accepted) theory that answers this research question. I therefore propose a combination of two areas of research that touch upon disclosure. The first pillar of my framework is built on stakeholder theory, especially instrumental stakeholder theory, legitimacy theory and stakeholder-agency theory. These theories suggest that engagement with stakeholders is in the (ethical as well as economic) interest of the organisation as well as the stakeholders - typically taking a long-term, strategic perspective. However, stakeholder theory does not indicate whether communication with

stakeholders adds to the goals of stakeholder management. I fill this gap by introducing voluntary disclosure of corporate strategy as a (potentially) powerful instrument to execute effective stakeholder management.

The other pillar of my framework is built on agency theory. This school of research analyzes cost and benefits of measuring information asymmetries - typically taking a short-term, tactical perspective. Agency theory however does not discuss strategic, long-term considerations of exchanging strategic information, especially in a wider context than the relation between principal and agent. I extend agency theory by combining information asymmetries with the strategic considerations that are provided by stakeholder theory that are aimed to exchange valuable information with stakeholders.

The methodological contribution of my research lies in building a comprehensive framework that includes assessments for voluntary disclosure of corporate strategy through annual reports, annual corporate social responsibility reports, websites and press releases, proved to be a labour-intensive but also powerful instrument which is easy to replicate to measure and test voluntary disclosure of corporate strategy.

My empirical research on voluntary disclosure of corporate strategy contributes to the extant empirical research on disclosure of financial information by identifying determinants of voluntary disclosure of corporate strategy, in some cases with surprising associations. The expected associations of the identified determinants size (H1), industry (H2), ownership (H5), dual-listing and national ranking status (H6 and H7) with voluntary disclosure were confirmed. However, the expected associations of the

identified determinants leverage (H3), profitability (H4) and listing age (H8) were rejected. As the literature on the effects of leverage and profitability, and to a lesser extent on listing age, to date delivered mixed results, these outcomes can be of help for future research on voluntary disclosure.

As for my research on organisational outcomes of voluntary disclosure of corporate strategy, I followed Leuz and Verrecchia (2000) in my research model to test whether liquidity and volatility of stock are affected by voluntary disclosure of corporate strategy. According to the extant financial literature on disclosure, liquidity and volatility of stock are perceived to be the two most significant, important, measurable and best understood organisational outcomes that are dependent from, amongst other determinants, disclosure (Healy and Palepu, 2001; Leuz and Wysocki, 2009). Both liquidity and volatility of stock are also perceived to be closely related to cost of capital, which is a field of research that is still in search of more clarity (Botosan, 2006).

In my research, I found the expected positive association of voluntary disclosure of corporate strategy is positively associated with liquidity of stock (H9), which is in line with mainstream literature on disclosure. A positive but not significant association was found between voluntary disclosure of corporate strategy with volatility of stock (H10). As volatility is a very complex concept, my findings contribute to the various theoretical and empirical literature that is in search of a better understanding of this measure of risk. Finally, my research offers a substantial contribution to the literature on reputation management, by empirically testing whether voluntary disclosure of corporate strategy is

positively associated with corporate reputation (H11). The hypothesis was confirmed, thereby confirming core elements of stakeholder theory and reputation theory.

The findings of my study can be of help in academic and professional fields of interest like strategic management, corporate governance, public relations, corporate communication, investor relations, reputation management and management accounting.

The contributions to theory and practice of this study is relevant for a series of stakeholders. In stock market based economies, such as the U.S., the U.K. and the Netherlands, the informed pricing of corporate securities is vital for economic stability and the promotion of sustained levels of high quality investments by corporations.

Understanding determinants and organisational outcomes of voluntary disclosure of corporate strategy is in the interest of financial authorities and policy makers, auditors, analysts, management executives, journalists, employees and consultants.

6.2 Limitations and suggestions for further research

Firstly, my research is limited by its scope. The complexity of geographical, cultural and regulatory differences between companies is limited by selecting only companies that are publicly listed in the Netherlands. On a global basis of comparison by Standard and Poor's, Patel et al. (2003) find that European disclosure compares favourably to Asia and Latin America, but less favourably relative to North America. While European disclosure levels fall short of composite disclosure levels as compared with the U.S., the level of disclosure in European annual reports alone is higher than for U.S. companies. There is a significant variation in transparency and disclosure among European countries (Patel et al., 2003). Cross-country regressions by Bushman et al. (2004) show that "governance transparency is higher in countries with a legal/ judicial regime characterized by a common law legal origin and high judicial efficiency", whereas "financial transparency is higher in countries with low state ownership of enterprises." As I focus on voluntary disclosure in the Netherlands, the empirical results may not be valid for disclosure of publicly listed companies in other countries. Replications of disclosure practice in other national settings warrant potential research extensions of this study. However, there are strong arguments given in academic literature to consider my research to be considered relevant for a wide variety of countries that are governed by similar standards as publicly listed companies in the Netherlands.

Firstly, research shows that the level of corporate disclosure in the Netherlands is consistently comparable with the U.K., France and Germany (Patel et al., 2003; Santema et al., 2005), whereby the U.K., France and the Netherlands are distinguished among countries showing the highest disclosure levels globally (Patel et al., 2003). It can

therefore be assumed that the results of my study are relevant for developed countries where the international stock market plays a vital role.

Secondly, the Dutch economy as a whole and Dutch companies in particular are very internationally oriented. More than 80% of all shares of Dutch publicly listed companies are held outside the Netherlands. All of the selected companies in my research sample trade internationally. So it can be expected that all companies in my sample are sensitive for signals of a wide variety of (international) stakeholders. This situation is arguably similar for large publicly listed companies in most developed countries. Thirdly, it also must be noted that since 2005, Dutch publicly listed companies are obliged to follow the International Financial Reporting Standards, just like all other publicly listed companies in the European Union. Currently, most important economies in the world require or permit IFRS reporting.

As for the representativeness of the selected 70 companies in my research sample: these companies represent over 99% of all Dutch publicly listed companies in the selected timeframe (2003-2008) in terms of turnover as well as profit as well as assets under management as well as employees.

As for the representativeness of the identified determinants and outcomes, substantial confirmation can be found in literature on financial disclosure. Although my research on voluntary disclosure of corporate strategy (forward looking information) is the first of its kind to deliver generalizable empirical (quantitative) results, especially on this scale, it can be compared with a rich tradition of research on disclosure of financial information (which mainly concerns backward looking disclosure). Research on disclosure to date has shown that identified determinants and outcomes of (financial) disclosure prove to

function in a similar way for publicly listed companies in a great variety of countries with a stock-market.

A specific limitation that follows my focus on Dutch publicly listed companies is that I could not control for corporate governance characteristics that are associated with disclosure in some areas of research. Studies that relate corporate governance and disclosure typically focus on the level of independence in executive boards, hypothesising that independence is positively associated with disclosure (Filatotchev et al., 2007). For the sample in my study, measuring the influence of outside directors is however not meaningful, since the Netherlands and Germany are the only European countries where publicly listed practically all have a two-tier executive board, consisting of a separation between executive and outside directors.

Another potential antecedent of disclosure that has no meaning for my research sample is given by signalling literature, suggesting that the choice of an external auditor can serve as a signal of firm value. This variable was not included in my research because, firstly, earlier research by Camfferman and Cooke (2002) shows that companies audited by a “Big 6 auditor” offered greater comprehensiveness of disclosure in the UK, but that this was not the case in The Netherlands in their comparative study on disclosure in these two countries. Secondly, auditor choice and reputation primarily seems to be an issue in emerging economies rather than developed Western economies (Wang et al., 2008). And thirdly, in the Netherlands, 98% of all publicly listed companies is audited by a Big-4 auditor (Heitling, 2009).

Another limitation is that my methodology and resulting empirics do not proxy for costs of disclosure. As for production cost and litigation cost, there is little reason to assume

that these costs are of significant relevance for voluntary disclosure of corporate strategy. There is no indication that production costs of disclosure of corporate strategy (at least through annual reports, press releases, websites and corporate social responsibility reports) are considered to be an issue for companies. As for litigation costs, the records of the Dutch shareholders association (Vereniging EffectenBezitters, VEB) show no legal issues on disclosure of corporate strategy for cases that were filed against PLC's that are among my sample of the 70 PLC's to date. Conversely, there are strong arguments to consider proprietary costs to be significant in this respect. However, as I did not find any credible proxy for proprietary costs, I excluded this variable from my research design, other than assuming that companies balance proprietary costs against the potential benefits from voluntary disclosure of corporate strategy, including beneficial effects on corporate reputation and on liquidity and volatility of stock.

One of the major limitations of any study on disclosure is the difficulty in measuring the extent of voluntary disclosure. Researchers use several proxies for this variable, including management forecasts, metrics based on databases, and self-constructed measures (with each approach having particular limitations (Healy and Palepu, 2001)). The limitations of the self-constructed types of measures that I proposed are that the selection and coding of the relevant disclosures are subjective, that they generally capture the existence of particular disclosures, rather than their quality, and that the construction of a single index assigns particular weights to the different disclosure items. In addition, my measures do not capture financial report disclosures. As I focus on disclosure that is available to all stakeholders, any disclosures that firms provide in analysts meetings, conference calls, and other such venues are omitted from the analysis.

Although my research concerns a multi-year period, which is quite uncommon in the literature on disclosure that typically is limited to analysis of a sample in a one-year timeframe, still a longitudinal study of 6 years (2003 through 2008) is limited in the sense that specific economic developments – such as the credit-crisis - are not flattened out in this timeframe.

As a new framework and methodology for understanding and testing voluntary disclosure of corporate strategy are offered, avenues for further research can be found in replication and refinement in environments with different cultural and political characteristics. As this research focuses on essential costs and benefits that have a generic nature, further research on specific costs and benefits of voluntary disclosure of corporate strategy for different types of stakeholders (like employees and suppliers) will provide additional understanding on how leaders can balance the risks and payoffs of disclosure.

Future research can contribute to improve the R^2 of the relation between voluntary disclosure of corporate strategy and corporate reputation by further exploring which explanatory and control variables are appropriate to model this relation. As my research is the first to explore the relation between voluntary disclosure of corporate strategy and corporate reputation, a firm stepping stone is provided for further exploration. For liquidity of stock, the found R^2 can be assessed as satisfactory, following the broadly accepted approach that Leuz and Verrecchia (2000) developed for assessing the relation between financial disclosure and liquidity. For volatility of stock, the found R^2 offers room for further research. However, as volatility is a very complex phenomenon, a wide variety of economic variables will have to be considered.

Another suggestion for further research is to further explore the meaning and impact of proprietary costs. Research suggests that leaders use very different and often personal criteria towards transparency in society (Coebergh and Cohen, 2009). While the economic costs and benefits of voluntary disclosure might be undisputed, it appears that leaders are also driven by political, emotional and psychological considerations in balancing perceived risks and payoffs of disclosure (Coebergh and Cohen, 2009). A better understanding of these considerations will contribute to understand how organisations and their leaders communicating with their environment about the challenges of our time.

6.3 Conclusion

Transparency is a sign of strength, at least for publicly listed companies. Corporations show strength by deliberately exposing their strategic intentions and subsequently risking detrimental use by third parties. Strength is also shown by the corporate intention to pursue consensus and support among stakeholders, aiming for sustainable progress and success of the corporation. Reaching out to stakeholders by expressing strategic intentions can be analysed as a sign of strength since research shows that voluntary disclosure of corporate strategy is likely to lead to various beneficial organisational outcomes.

Risks and payoffs of voluntary disclosure are identified in studies on information asymmetry that address the double-edged nature of revealing economically valuable information. Information asymmetries with investors can lead to greater investor uncertainty, potentially leading to various negative organisational outcomes. Information asymmetries with competitors, however, can lead to greater competitive ambiguity and reduce the firm's threats from imitation and substitution. Any information that managers voluntarily disclose may therefore direct attention in ways that help rivals evaluate their strategic alternatives. Management's voluntary corporate disclosure decision thus embodies a complex trade-off decision because the aim of rational managers is to select a disclosing strategy that will maximize the value of their company to the shareholders by seeking to protect proprietary information and, at the same time, to voluntarily disclose information to signal that they are acting in the stakeholders' interests under the stakeholder-agency theory.

My research shows that a careful balance of the risks and payoffs of voluntary disclosure of corporate strategy is likely to be rewarded by stakeholders in general, measured by improved corporate reputation, and shareholders in particular, measured by an increased trade in the company's stock. The extent to which companies voluntarily disclose corporate strategy is largely driven by the mixture of stakeholders who are engaged with the corporation, which differs along determinants such as size, leverage, industry, ownership concentration and exposure as a listed company.

7. REFERENCES

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APPENDIX A: THE RESEARCH SAMPLE

Company	2003	2004	2005	2006	2007	2008
Aalberts Industries						
ABN AMRO						
AEGON						
Ahold, Koninklijke						
Akzo Nobel						
ARCADIS						
ASM International						
ASM Lithography						
Ballast Nedam						
BAM Groep, Koninklijke						
Binck bank						
Boskalis Westminster						
Brunel International						
Corio						
Corporate Express / Buhrmann						
Corus						
Crucell						
CSM						
Draka Holding						
DSM						
Eurocommercial Properties N.V.						
Exact Holding N.V.						
Fortis						
Fugro						
Getronics						
Grontmij						
Hagemeyer						
Heijmans						
Heineken						
Hunter Douglas						
Imtech						
ING						
Innoconcepts						
KPN, Koninklijke						
KTC / Ten Cate, Koninklijke						
LogicaCMG						
Nieuwe Steen Investments						
Numico, Koninklijke						
Nutreco						
Océ						
OPG						
Ordina						
Pharming Group						
Philips, Koninklijke						
Randstad						
Reed Elsevier						
Rodamco Europe / Unibail Rodamco						
Royal Dutch Shell						
SBM Offshore (IHC Caland)						
Sligro						
Smit Internationale						
Stork						
Super de Boer (Laurus)						
Telegraaf						
TNT (TPG)						
Tom Tom						
Unilever						
Unit 4 Agresso						
United Services Group						
Univar						
Van der Moolen						
Van Lanschot						
VastNed Office/Industrial						
VastNed Retail						
Vedior						
VNU						
Vopak, Koninklijke						
Wereldhave						
Wessanen, Koninklijke						
Wolters Kluwer						

The research sample of this study consists of the 70 largest publicly listed companies mentioned above that were at least 3 years listed at Euronext Amsterdam during 2003-2008. Years that companies of this sample were not listed are indicated by grey cells.

APPENDIX B: CRITERIA TO ASSESS VOLUNTARY DISCLOSURE OF
CORPORATE STRATEGY

For the assessment of voluntary disclosure of corporate strategy in annual reports and press releases, 10 criteria are applied that are developed by Scenter consulting in 1994 (Santema, 2002). The overall assessment of each individual annual report and corporate press release of the 70 companies in my research sample is calculated as by taking the total score of all 10 criteria (for which a maximum score of 5 points could be earned per criterium), divided by 5. For the year 2004, the results for annual reports are calculated slightly differently. A 5-point Likert scale is used, having a minimum score of one and a maximum score of 5. The total result, between 0 and 10, is calculated as follows: (Total score -10) / 4. For 2003, the following formula was used: (Total score – 10) * 2,5 / 10. This has to do with the development of criteria and measurements that consulting agency Scenter developed since 1994 in assessing annual reports.

The ten criteria are detailed and scored as follows:

1) Business definition: A description of the firm’s key corporate activities, customer groups and approach to key markets. The following elements must be described:

- | | |
|-------------------------------|--|
| 1. Customers | 3. Customer need the organisation fulfils |
| 2. Products and / or services | 4. Mission and / or vision of the organisation |

The criterium is scored as follows:

Points	Description
5	The description of the business definition comprises all four elements
4	The description of the business definition comprises three out of four elements
3	The description of the business definition comprises two out of four elements
2	The description of the business definition comprises one out of four elements
1	The description of the business definition comprises none of the four elements, but does give a general description of the organisation
0	There is no description of the organisation given, whatsoever.

2) Goals: The corporate operational targets for the coming year in qualitative terms.

This criterium is assessed based on two elements:

1. The number of goals being mentioned.
2. The clarity of presenting

The criterium is scored as follows:

Number of goals mentioned	Clearly presented	Not clearly presented
4 (or more)	5	4
3	4	3
2	3	2
1	2	1
0	0	0

3) Objectives: The corporate operational targets in quantitative terms. The objectives are quantified goals that are measurable in terms of quantity and time.

This criterium is assessed based on two elements:

1. The number of objectives being mentioned.
2. The accuracy of the description: a clearly specified objective answers two basic questions: “how much” and “when”.

The criterium is scored as follows:

Number of objectives mentioned	Specified in both time and quantity	Specified in either time or quantity
4 (or more)	5	4
3	4	3
2	3	2
1	2	1
0	0	0

4) SWOT Analysis: A description of the firm's main corporate strengths, weaknesses, opportunities and threats. The criterium is scored as follows:

Points	Description
5	A SWOT-analysis is given in which all four SWOT-elements are explicitly mentioned.
4	All four elements of a SWOT-analysis are mentioned but only implicitly linked or analyzed.
3	Three out of four SWOT-elements are mentioned
2	Two out of four SWOT-elements are mentioned
1	One out of four SWOT-elements are mentioned
0	None of the four SWOT-elements are mentioned

5) Challenges: The confrontation of the corporate SWOT-elements and the resulting consequences for the way in which the company will have to arrange its business.

Challenges are described by how a company:

- Uses a strength to benefit from an opportunity
- Uses a strength to avoid a threat
- Transforms a weakness into a strength to benefit from an opportunity
- Transforms a weakness to avoid a threat

In this approach of describing challenges, an explicit link with a SWOT-analysis is considered necessary to be appreciated. Just mentioning challenges is not considered to give essential information about how the company is going to deal with the situation.

The criterium is scored as follows:

Points	Description
5	More than four challenges are mentioned.
4	Four challenges are mentioned.
3	Three challenges are mentioned.
2	Two challenges are mentioned.
1	One challenge is mentioned.
0	No challenges are mentioned.

6) Corporate strategy: The basis for the strategic decisions to be taken on an organisation-wide level. Corporate strategy translates challenges into a roadmap for implementation.

The assessment of this criterium is based on two elements:

1. The link between corporate strategy and challenges. Corporate strategy is supposed to be based on the analysis that delivered the challenges.
2. The connection of qualitative targets (objectives) and quantitative targets (goals) for the coming year. This must be done in a clear and understandable way, therefore not scattered through the annual report

The criterium is scored as follows:

Description	Linked with challenges	Not linked with challenges
The described corporate strategy connects objectives and goals and is clearly presented.	5	4
The described corporate strategy connects objectives and goals but is not clearly presented.	4	3
The described corporate strategy does not connect objectives and goals but is clearly presented.	3	2
The described corporate strategy does not connect objectives and goals and it is not clearly presented.	2	1
There is no corporate strategy mentioned.	0	0

7) Business unit strategy: The strategy pursued by the different strategic business units (SBU's). The SBU's might be organised functional or geographical.

The criterium is scored as follows:

Points	Description
5	A business unit strategy is given for 100% of the business units.
4	A business unit strategy is given for 80% of the business units.
3	A business unit strategy is given for 60% of the business units.
2	A business unit strategy is given for 40% of the business units.
1	A business unit strategy is given for 20% of the business units.
0	A business unit strategy is given for 0% of the business units.

8) Monitoring: The corporate review, evaluation and control of the strategic planning process. Results of a given period are being compared with goals, objectives and corporate strategy of the same period. The assessment of this criterium is being done on the basis of the number of three elements that are evaluated: corporate strategy, goals, objectives. Secondly, it is assessed whether the earlier defined corporate strategy, goals or objectives are explicitly mentioned again.

The criterium is scored as follows:

Description	Mentioning previous goals or objectives	Not mentioning previous goals or objectives
Three elements are evaluated.	5	4
Two elements are evaluated.	4	3
One elements is evaluated.	3	2
Evaluation is given but not on the elements specified above.	2	1
No evaluation is given.	0	0

9) Results of action plans: The concrete ways by which the company has implemented corporate strategy during the past year on either corporate or business unit level. This analysis shows how strategic plans are transformed into specific activities.

The assessment of this criterium is based on two elements:

1. The number of action plans mentioned.
2. The connection action plans with corporate strategy.

The criterium is scored as follows:

Number of past action plans mentioned	Linked with corporate strategy	Not linked with corporate strategy
4 (or more)	5	4
3	4	3
2	3	2
1	2	1
0	0	0

10) Action plans for the coming year: The concrete ways by which the company plans to implement corporate strategy during the coming year on either corporate or business unit level.

This analysis shows how the company will transform strategic plans into specific activities.

The assessment of this criterium is based on two elements:

1. The number of action plans mentioned.
2. The connection action plans with corporate strategy.

The criterium is scored as follows:

Number of future action plans mentioned	Linked with corporate strategy	Not linked with corporate strategy
4 (or more)	5	4
3	4	3
2	3	2
1	2	1
0	0	0