

ASPECTS REGARDING CORPORATE MANDATORY AND VOLUNTARY DISCLOSURE

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The paper highlights theoretical aspects regarding corporate mandatory and voluntary disclosure. Since financial and business reporting are important information sources for different stakeholders, especially for publicly traded companies, the business reporting is increasingly oriented to the need of different users. In order to make rational investment decisions, users of corporate annual and interim reports require an extensive range of information. The increasing needs of the users persuade different international bodies and researchers to investigate the improvements that can be done in business reporting. The results of those studies usually were different reporting models. Because voluntary dimension of corporate disclosure involve the manifestation of free choice of the firm and its managers, we have considered as necessary to achieve a theoretical analysis of the main costs and profits of the voluntary disclosure policy.

Key Words: corporate disclosure, financial reporting, mandatory and voluntary disclosure

Introduction

Disclosure theory indicates that corporate disclosures are complex constructions capable of a variety of interpretations. As Gibbins, Richardson and Waterhouse (1992) have argued, organizations may disclose information to support the efficiency of exchange and production, but they also disclose information to establish their compliance with the social values reflected in regulations and informal norms.

The changes in the international business environment have imposed reviews in the nature and content of the corporate reporting. A lot of polemics have been generated between the users of business reports and different regulation organizations involved in accounting and reporting standards setting process. The breakpoint of these polemics is the users' needs regarding a better understanding and a better communication of the differences existing between the market and book value of an enterprise. Even though the traditional financial statements are based on practices and standards with a long history behind they became insufficient to solve the information needs of the actual users. Corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings (Healy and Palepu, 2001). In addition, some firms engage in voluntary communication, such as management forecasts, analysts' presentations and conference calls, press releases, internet sites, and other corporate reports. Finally, there are disclosures about firms by information intermediaries, such as financial analysts, industry experts, and the financial press. Traditionally, the corporate annual report has been seen as the primary source of corporate information disclosure. However, this is slowly changing and moving towards internet reporting.

The two dimensions of corporate disclosure. Definition, differences and similarities

Reporting and disclosure are the most important tools that companies use to communicate with their stakeholders. Disclosure is a crucial element in ensuring the effective allocation of resources in society and diminishing the information asymmetry between company and its stakeholders.

Companies have at their disposal two kinds of publishing variants through which they can diminish the informational asymmetry towards their stakeholders: compulsory and voluntary disclosure. The most important publishing variant is represented by the compulsory disclosure. The mandatory character of reporting is ruled at national or even regional level through professional organizations or government authorities, being practiced in most of the countries by all the firms regardless of their size, of their judicial,

fiscal or national accounting system, the favorite finance sources and other factors with impact on disclosure policy. The second, voluntary disclosure comes to complete the mandatory reporting process that often seems to be inadequate for satisfying user's needs. Traditional financial reporting mostly provide historical information, moreover, in certain industries, conventional accounting and reporting strategies may not be sufficient to accurately represent the complexity of a firm's operations (Mohanram, 1998).

Mandatory disclosure refers to those aspects and information which must be published as a consequence of the existence of some legal or statutory stipulations, capital markets, stock-exchanges commissions or accounting authorities regulations. The aim of mandatory disclosure is to satisfy the users' informational needs, ensuring the production quality control through the laws and standards' observance.

In Romania, the compulsory character of the corporate disclosures is established in relation to the regulations of the Finance Ministry (for all enterprises) and the regulations and codes issued by National Commission of Movable Assets and Bucharest Stock Exchange (for the listed companies). The mandatory disclosure has both periodic and continuous character.

The compulsory periodic disclosure refers to the dissemination of annual and biannual financial statements, consolidated financial statements, administrator report, audit report, annual, biannual and quarterly reports and financial calendar. Terms for the publication of these reports are pre-established. As regards the deadline of reports transmission, the Romanian legislation is at the level of the developed capital markets' requests, but, unfortunately, these terms are frequently not respected by the companies listed on the stock-exchange market. Thus, the non-fulfilment of the requests regarding disclosure is the main cause of the transaction suspension of the BSE issuers.

Items, that define the mandatory character of disclosure are:

- issuer: company,
- receivers: shareholders, employees, creditors, customers and other stakeholders
- regulations: comercial law, accounting law, accounting standards: IFRS , US GAAP, European Accounting Directives, national accounting standards et al.;
- content: format and object of disclosed statements,
- periode of disclosure: annual, biannual, quarterly or occasionally,
- dissemination means: printed or web site.

The voluntary disclosure has its sources in the past of the business development, when, as a result of the fact that owners have delegated to the managers the leading function of the enterprises, the need for voluntary disclosure appears as a consequence of the information asymmetry between the two parties: managers are better informed about the business than its owners. The development of the capital markets after the great crises in the USA in 1929 has led to a more and more emphasized manifestation of the voluntary disclosure. The voluntary disclosure regards information made public through the firm's free choice. It is influence by culture, social, economic and behavioural factors that are specific to each firm. There is no general accepted definition or theoretical background for voluntary disclosure.

Thus, we will explain the voluntary disclosure as being an additional offer of information in relation to different national regulations or international referential of business reporting, that is, something that is not compulsory by the law, but becomes voluntary through the behaviour regarding publication. In other words, the voluntary offer of information represents the excess of information, dependent both on the free choice of the enterprise leadership and on the regulations in force, the outside pressures of the capital markets, financial analysts, consulting firm's et al. and the cultural factors.

Although the voluntary disclosure represents the reporting outside the financial statements, which is not explicitly ruled through norms or laws, it is admitted that many of these "voluntary disclosures" are made in order to be in agreement with the requests of the stock-exchange commissions regarding: the companies presentation, analysis and management presentations regarding risk, opportunities and the results obtained or provisioned.

Therefore, in order to obtain capital and moreover to attract investors, companies often voluntarily disclose corporate information even in the absence of regulation. Agency theory highlights the reasons that cause managers to provide voluntary disclosures above and beyond required disclosures. Under agency theory, voluntary disclosures occur as a means for companies to minimize their agency costs, no whether its forms are: traditionally disclosure, internet or XBRL disclosure.

Voluntary disclosure: benefits and limits

Disclosure benefits. In order to orient the decision regarding the publishing policy we must balance the costs and the advantages afferent to the supply of additional information in order to answer to the request of different groups of users. We can observe two categories of users: sophisticated: brokers, financial analysts and the investment funds which need information in order to counsel the non- sophisticated users and clients: those who do not have specialized knowledge and they appeal to the first category. All these users wish to surpass the information limits offered by the compulsory information and they put pressure on firms in order to obtain useful complementary information. Under the pressure of these groups, the managers supply voluntarily the information they consider useful for stakeholders needs. But the vision on the *a priori* usefulness of the voluntary information remains a normative vision because it does not appreciate the managers' motivations regarding disclosure, they are aware of the effects of using voluntary information on their communication. It is presumed the cost of the information release being a sufficient condition in order to assure their credibility.

The benefits obtained as a result of corporate disclosure for the firms listed on the capital market can be measured through the consequences of the cash flow evolution and the transaction price increase. Eccles and Mavrinac (1995) have achieved a study through which they have investigated which the expectations of different users' categories as referring to the potential profits of the improvement of the firms' publishing system. All three investigated users categories: managers, financial analysts and investors, have considered that the greatest benefit is the increase of the firm's credibility and the next ones are in the order of the importance conferred to them by: the increase of the shares' value, the increase of the potential investors number, several suggestions from the analysts, the improvement of the access to the capital, the increase of the balance between the share's price and the share's profit, the diminution of the shares' volatility, the increase of the shares' liquidity, the improvement of the relations with the suppliers, the diminution of the political interventions to regulate the market.

Holland (1998) comparing the benefits to the costs of voluntary disclosure, states that "the management will publish until they will reach the point when they will observe that the capital agency costs reduction has equalled the increase of the information publication costs for the market and the other users."

Limits of voluntary disclosure. The competitive dynamics of the products and services markets play a restrictive role regarding the firms' voluntary disclosure policies. The managers are often forced to choose between maximizing the competitive advantage of the firm's market by not publishing information which would affect the competitive position or to publish that information in order to help the capital market to achieve an efficient evaluation of the company's shares.

Another limit would be that in the past the annual reports were involved in satisfying the shareholders' needs and not those of the employees and stakeholders. That is why, now the firms must re-examine the disclosure contracts with the employers' federations and the trade unions and to confer a greater attention to these groups' needs.

There are many factors and aspects which can influence the general policy of a firm's voluntary offer of information, as: the level, the frequency and the method of disclosure used; the objectives established by the firm regarding disclosure; the firm's size, the status regarding listing, the organisational culture and the business complexity; the number, type and culture of the firm's shareholders; the disclosure costs; the level of favourable news about the firm; the competition intensity, the market level and the profit rate obtained by enterprise. We consider that the most important of all these is the *disclosure cost*.

The first benefit of the publication of a great volume of information is represented by a better capital allocation at national and international level, which can be translated as a capital cost reduction. Through the increase of the publishing level, especially of the information provisioned, the firms can reduce the cost of the capital attainment (Healy și Palepu, 1993). However, Thompson (1995), warns that an undisciplined expansion of the business reporting can lead to an un-necessary increase of the expenses.

The voluntary disclosure of information in the annual reports implies additional costs and the users' needs of information must be thought taking into account the costs efficiency of different reporting types. A cost-profit analysis must be done for each type of information supplied. Unfortunately, there is no general accepted technique of measuring these costs and profits that is why the process is complex, subjective and often inappropriate, sometimes inexact or even wrong. According to Malone et al. (1993) the firms which are economically stimulated to supply more information, will do it only if the marginal cost will surpass the marginal profit of the additional disclosure.

The examination of the financial managers perceptions of some multinational firms in the United Kingdom and USA on the report cost/profit achieved by Gray, Radebaugh and Roberts (1990) has led to the conclusion that the items published voluntarily which have led to significant increases of net costs are: the inflation adjusted profit, the measurement of the forecasts and the information regarding the segments reporting.

So, the voluntary disclosure is much constrained by the costs which are involved by collecting, processing, attainment and auditing of data, to which the indirect costs are added. The indirect costs have a special role regarding the danger to supply information which can be used by the actual or potential competitors.

The cost is a factor often used as a reason to limit the volume of the voluntarily disclosed information. Singhvi and Desai (1971) have shown: the cost of the accumulation of certain information is bigger for the smaller companies than for the larger ones, especially because the large companies dispose a more complex reporting system and a high level of earnings, the larger enterprises afford more easily high advertising costs which allows them to pick up the benefits of the easier shares' transaction and to obtain finance more easily. On the other hand, the small firms can put their competitive position in danger by an excessive information disclosure.

AICPA in Jenkins Report (1994) identified six constraints to reduce costs in areas where the costs of reporting under the model could be significant:

- a) Business reporting should exclude information outside of management's expertise or for which management is not the best source. That is, business reporting should include only company-specific information that is within management's expertise to provide;
- b) Management should not be required to report information that would harm a company's competitive position significantly;
- c) Management should not be required to provide forecasted financial statements. Rather, management should provide information that helps users forecast for themselves a company's financial future, such as the information specified in the Committee's model;
- d) Other than for financial statements, management need only report the information it knows. That is, management should be under no obligation to gather information it does not have, or need, to manage the business. Certain elements of business reporting should be presented only if users and management agree they should be reported - a concept of flexible reporting;
- e) Companies should not have to expand reporting of forward-looking information until there are more effective deterrents to unwarranted litigation that discourages companies from doing so.

Conclusions

As we can see in our days financial reporting is only a part of the business reporting. Companies are in the situation of voluntarily producing and disclosing complementary statements to cover some of the deficiencies in content of traditional financial reporting. Voluntary disclosure is an important part of the present corporate reporting practice and Internet disclosure is the future trend of current business reporting.

Information is the heart of the best functioning capital markets. A comprising, reliable, comparable, understandable and high quality corporate reporting increase the investors' confidence and the market efficiency. Despite the highly positive recognition that companies stakeholders have given to initiative of voluntary disclosure we have observed that they involve serious drawbacks that may affect the validity of this type of disclosure. As much information companies will disclose voluntarily as less comparable and reliable will be their reports.

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