

Analysis of the Impact of Voluntary Information Disclosure on Economy and Its Transmission Mechanism

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Abstract. Corporate disclosure plays a key role in capital markets, as it directly affects market transparency, investor confidence, and firms' financing costs and investment efficiency. This paper investigates several hypotheses regarding corporate management's motivation to make voluntary disclosures. These include the capital market transaction hypothesis, the controlled competition hypothesis, the stock option hypothesis, the empire building hypothesis, and the agency cost hypothesis. In addition to examining the underlying motives, this study also explores the economic consequences of voluntary corporate disclosure. It finds that different economic agents may reach different conclusions about these consequences, depending on their respective perspectives and interests. Overall, the analysis highlights that voluntary disclosure is not only driven by managerial incentives but also leads to varied outcomes for investors, firms, and the broader market. By reviewing both the theoretical motivations and the empirical economic effects, the paper provides a comprehensive understanding of how voluntary corporate disclosure influences capital market behavior and corporate decision-making.

Keywords: Information disclosure, economy consequences, transmission mechanism

1. Introduction

Information disclosure mainly refers to the public company in the form of prospectus, listing notice, periodic reports and interim reports, the company and company-related information to investors and the public disclosure behavior. It has a significant role in the capital market, and it always affects market transparency directly, investor confidence, as well as the financing cost and investment efficiency of enterprises. Through in-depth study of the impact and mechanism of information disclosure, we can better understand and optimize the financial decisions of enterprises, thus promoting the healthy development of the market.

Information disclosure is mainly categorized into: financial disclosure, including annual reports, quarterly reports, financial statements, etc. These documents provide the financial status and operating results of enterprises. Non-financial disclosure, including Corporate Social Responsibility (CSR) reports, Environmental, Social and Governance (ESG) disclosures, etc., which help to assess a company's long-term sustainability and fulfillment of social responsibilities. Voluntary information disclosure, in which enterprises disclose various types of information on their own initiative, such as strategic planning, market outlook, and management discussion and analysis. Mandatory

information disclosure, information that enterprises are required by laws and regulations to disclose, such as announcements of major events, disclosure of insider trading, etc.

The development of information disclosure regulation began with the establishment of the Shanghai and Shenzhen Stock Exchanges in 1990; in 1991, the "old eight stocks" released the 1990 business status statement, which was the starting point of information disclosure in China; in late 1999, a four-tier information disclosure system was formed with laws, administrative regulations, departmental rules and self-regulatory rules; the Securities Law (1998); the first version of the Listing Rules was released; and the Guidelines on the Content and Format of Information Disclosure for Publicly Offered Stocks was issued. After 2000, the disclosure system entered a phase of continuous improvement. 2001 saw the beginning of quarterly disclosure in China, and the regulation of financial accounting and company operations was strengthened until 2005. 2013 saw a new phase of disclosure regulation, with the opening of the through train. Ex-post regulation began, requiring due diligence on the part of the disclosure entity. 2015 became the first year of sub-industry regulation. In January 2022, an email was sent to the Sci-Tech 50 constituent companies, emphasizing that disclosure of annual reports must be accompanied by disclosure of ESG reports, reflecting the importance attached to CSR disclosure. In January 2023, a new policy initiative was launched to strengthen the disclosure of CSR reports in China. These policy initiatives have strongly contributed to the standardization and healthy development of disclosure regulation in China.

We will explore the motivations for voluntary disclosure by corporate management and its economic consequences, ultimately presenting an outlook for future research. We will explore the capital market transaction hypothesis, the competition for corporate control hypothesis, the stock option hypothesis, the empire building hypothesis, the agency cost hypothesis, and the five hypotheses and the motivations behind them. It also examines the economic consequences of voluntary corporate disclosure on the firms themselves and other market participants. Finally, the study looks forward and suggests future research directions to explore more possibilities.

2. Corporate management's motivation for voluntary information disclosure

2.1. Capital market transaction hypothesis

The hypothesis suggests that by proactively disclosing more information to the capital market, companies can reduce information asymmetry and help investors to more accurately assess the true value of the company, thus making the stock price more accurately reflect the actual situation of the company. Healy and Palepu [1] points out that, financial reporting and disclosure are potentially important means for management to communicate firm performance and governance to outside investors. Through voluntary disclosure, companies can enhance the market liquidity of their shares, reduce transaction costs and attract more investors, thereby increasing the market value of the company. Verrecchia's [2] study similarly suggests that corporate disclosure reduces information mismatches as a vehicle for integrating the efficiency of disclosure choices in favor of stock liquidity and market efficiency, resulting in a more accurate reflection of company value. Ellili [3] used a variety of econometric models to estimate the impact of environmental, social and governance information disclosure and financial reporting quality on investment efficiency in the United Arab Emirates (UAE) from 2010 to 2019. The empirical results show that there is a positive correlation between ESG disclosure, FRQ and investment efficiency, and this relationship is more important in underinvested and high FRQ subsamples. The results show that ESG information disclosure improves transparency, alleviates information asymmetry and improves investment efficiency.

2.2. Control competition hypothesis

This hypothesis, also known as the management entrenchment hypothesis, states that management may protect its position and control from being ousted by shareholders or outside forces through a series of measures that often come at the expense of shareholder value. Lee and Lee [4] use an example in Korea, which shows that the more competitive the industry, the more management tends to reduce the disclosure of information on GHG emissions in South Korean firms, as such disclosure may be exploited by competitors and increase the firm's proprietary costs. Management enhances the competitive position of the firm and reduces the risk of dismissal through voluntary information disclosure. Diamond and Verrecchia [5] show that disclosure of public information to reduce information asymmetry attracts demand from large investors by increasing the liquidity of securities, which reduces the firm's cost of capital, increases corporate transparency, and makes investors more trusting of management's decisions, thus supporting management control. Besides, Hosono, Takizawa and Tsuru [6] analysed the characteristics of firms that introduced anti-takeover clauses using a Japanese firm-level dataset and found that the likelihood of adopting anti-takeover clauses was positively related to firm age and cross-shareholding, while it was negatively related to managerial shareholding.

2.3. Stock option hypothesis

Company management, when holding shares or options in the company, may maximize their personal gains through the use of disclosure, in particular by manipulating the share price in order to sell at a profit when the share price is high. Jensen and Meckling [7] point out that management holding shares or options in a company has an incentive to profit from disclosure by raising the short-term share price. This behavior helps management to maximize their personal wealth, but at the same time it may create problems of short-termism. Aboody and Kasznik's [8] study similarly noted that CEOs make opportunistic voluntary disclosure decisions that maximize their stock option compensation.

2.4. Empire building hypothesis & agency cost hypothesis

Management may enhance its position and power in the company through voluntary disclosure. By demonstrating to the outside world their managerial competence and the company's good growth prospects, management can strive for higher remuneration and greater authority. A study by Hope and Thomas [9] tests the agency cost hypothesis in the context of geographic earnings disclosure. In accordance with Statement of Financial Accounting Standards No. 131 (SFAS 131), and using a sample of U.S. multinational corporations with significant foreign operations, we find that firms that do not disclose geographic earnings experience greater foreign sales expansion, generate lower foreign profit margins, and have lower firm values in the post-SFAS 131 era compared to firms that continue to disclose geographic earnings. Overall, the results are consistent with the agency cost hypothesis and the important role of financial disclosure in monitoring managers. Furthermore, regarding the empire building hypothesis, Jensen and Meckling [7] argued that management reduces agency costs by voluntarily disclosing information that reduces the need for shareholders to monitor their behavior. This disclosure behavior not only helps to improve corporate governance but also enhances investor trust in the firm. Similarly, as mentioned earlier, the use of anti-takeover measures in the case mentioned by Hosono, Takizawa and Tsuru [6] was motivated by managers' self-

protection and also influenced by the conflict of interest between managers and shareholders. This is also a reflection of the agency cost assumption.

3. The economic consequences of voluntary corporate disclosure

3.1. For company itself

3.1.1. Corporate finance

Enterprise financing is an important part of the company's development, and information disclosure plays a key role in this process. Information disclosure can reduce information asymmetry and thus lower the cost of financing. A company's proactive disclosure of information prior to financing can increase share prices through stock market speculation. This is because transparent information increases the market's trust in the firm and reduces information asymmetry. Apart from the study of Zeng and Lu [10], they studied whether the quality of disclosure of listed companies in China affects their cost of equity financing using a sample of A-share listed companies in the Shenzhen stock market. The study finds that the marginal cost of equity financing is lower for the sample firms with higher disclosure quality, which indicates that the disclosure quality of Chinese listed firms has a positive impact on their cost of equity financing, and that surplus smoothing and overall disclosure quality are the main disclosure quality characteristics that affect the cost of equity financing of the sample firms. To cite a real-world example, Alibaba raised \$25 billion in its initial public offering (IPO) on the New York Stock Exchange on September 19, 2014, setting a record for the world's largest IPO. To attract investors, Alibaba made extensive disclosures prior to the IPO, including detailed financial statements, business operations, and market outlook. This information increased investor confidence and reduced information asymmetry, enabling Alibaba to successfully raise capital at a higher share price. Also, Schrand and Verrecchia [11] also mentioned that the more corporate disclosure, the lower the level of IPO discount. Firms tend to release more positive information during the implementation of refinancing to attract investors' attention and thus increase the success rate of financing.

3.1.2. Business investment

Corporate investment behavior is also very much influenced by information disclosure. High-quality disclosure improves the external regulatory environment and increases investment efficiency, e.g., In its 2017 annual report, Alibaba disclosed in detail the implementation of its "new retail" strategy and future plans. The new retail strategy includes the integration of online and offline retail, the construction of intelligent logistics, and the application of big data technology. Alibaba's annual report shows investors its investment in the field of new retail and the expected benefits. At an investor meeting in March 2018, Alibaba's top executives explained in detail the latest progress and future plans of its new retail strategy. During this meeting, Alibaba disclosed the results of its investments in the new retail sector, such as its cooperation with Yintai Department Store, the expansion of Box Ma Fresh Life, and other specific projects. These transparent disclosures enabled investors to better understand and assess Alibaba's long-term investment value, thus improving the company's investment efficiency. However, when the readability of a firm's annual report is low, the stricter the firm's lending conditions are. El-Diftar, Jones, Ragheb and Soliman [12] conducted a five-year survey of the most active firms in Egypt. A voluntary disclosure checklist was first developed to assess the level of voluntary disclosure and transparency. The empirical results show

that bank ownership and foreign ownership have a significant positive effect on voluntary disclosure and transparency. Of the four firm characteristics controlled for in the study, firm size is the only one that has a significant positive effect on voluntary disclosure and transparency. In addition, transparent disclosure helps to resolve capital market agency conflicts within diversified firms, thereby improving overall investment efficiency. Furthermore, Ellili [3] shows that high-quality environmental, social, and governance (ESG) disclosures and financial reporting quality (FRQ) improve firms' investment efficiency, especially for firms that are overinvested and have poor financial information quality. Specifically, these disclosures increase firm transparency and reduce information asymmetry, thereby optimizing investment decisions. ~Similarly, Kostova & Hoenen (2018) find that the more transparent the information about subsidiaries is, the easier it is for diversified firms to resolve agency conflicts and thus improve investment efficiency. In my review, I also found that voluntary disclosure of non-financial information can obtain external financing for firms, thus alleviating the dilemma of underinvestment, but at the same time, it may also lead to overinvestment by some firms, which shows the double-edged sword effect of information disclosure in investment [13].

3.2. For other market participants

3.2.1. Investors

We argue that corporate disclosure affects investors' trading behavior and portfolio allocation. In reading Cohen, Holder-Webb, Nath and Wood [14], it is found that the shareholding ratio of both institutional and retail investors is positively correlated with the level of corporate disclosure, e.g., the more information a company discloses to the public, the more it enhances investor confidence in the company, which in turn improves the trading volume of the stock and market activity, and the higher the shareholding ratio of both institutional and retail investors. Through regular and transparent information disclosure, investors are able to have a more comprehensive understanding of the company's operating conditions and financial status, which helps to reduce information asymmetry and investment risk. Using a real example, Apple holds quarterly earnings calls where CEO Tim Cook and CFO Luca Maestri detail the company's financial performance, new product release plans, and market outlook. This information enables investors to better understand the company's operating conditions and thus make more informed investment decisions. Also, in Faccia and Petratos [15], the application of NLP and IR in financial reporting and non-financial disclosure is discussed. Indeed, one of the reasons behind this is that investors are more susceptible to the information disclosed by a company when they are faced with the problem of screening the information disclosed by the company. One of the reasons behind this is that when investors are faced with the problem of screening the information disclosed by a company, they are more likely to be influenced by the information vocabulary used by the management and trade accordingly. If the tone of an investor's question on an investor relations interactive platform or the chairman's secretary's response is negative, investors will buy less and sell more. This suggests that many investors choose information that they can see, not only from this disclosure issued by the company, but also used by many other connections on the interactive platform, basically investors can observe all the information used for trading. This analysis shows that investors engage in forward decision making and rational expectations. Rational expectations were first introduced by Muse and later by Lucas, who introduced them into macroeconomic research after pioneering neoclassical economics.

3.2.2. Enterprises in the same industry

Corporate disclosure can have spillover effects on firms in the same industry, and this effect is mainly reflected in two aspects: market reaction and corporate economics. In terms of market reaction, corporate disclosures have a transmission effect on peer firms, that is, when firms issue surplus announcements and earnings forecasts, their market reaction is also positively related to the degree of marketization of peer firms. When firms engage in such financial restatements, investors in peer firms re-evaluate the quality of disclosures of firms that do not engage in financial restatements. As a result of lower quality, peer firms experience this significant downward trend in their stock prices. In 2009, Toyota's stock price bore this out. Toyota conducted a massive recall over a gas pedal issue that affected millions of vehicles worldwide. This disclosure led to a drop in Toyota's stock price, but it also affected the stock prices of other automakers. For example, shares of Honda and Ford were also subject to short-term volatility. According to Karpoff, Lee and Martin [16], after a foreign company listed in the U.S. is penalized, the stock prices of foreign peer companies that are not on the penalized list continue to rise. This is actually due to the fact that the restrictions on violations lead to an increase in the credibility of the disclosures of these companies and a decrease in the risk expected by investors. Besides, in the context of corporate operations, several studies have found that corporate disclosures have spillover effects on investments in the same industry, that is to say, financial restatements cause competitors in the same industry to change their assessment of the value of existing projects and to alter their investment decisions. Information disclosed through social media, such as Twitter, can greatly influence the public's perception of a company and its operations. For example, positive social responsibility information can enhance a company's image and market recognition [17].

3.2.3. Analyst tracking

From the perspective of analyst tracking, we find that when a company discloses more information, the accuracy of analysts' forecasts is higher and its calculated variance is smaller; conversely, the less information it discloses, the higher the analyst coverage and the more informative the forecasts are. At the same time, another study utilizing data from 22 countries and comparing the country level found this same positive correlation between the level of corporate disclosure and the accuracy of analysts' surplus forecasts. For example, On July 26, 2018, Amazon released its second quarter 2018 earnings report. The report details the company's revenues, costs and future outlook for each of its business units, with a particular focus on the growth of its cloud computing business (AWS). Amazon reported that net sales of AWS increased 49% year-over-year to \$6.1 billion, accounting for more than 12% of the company's total operating income. These detailed disclosures allow analysts to more accurately predict Amazon's future performance. And, during the investor conference call following the earnings release, Amazon's top executives further explained the key numbers in the earnings report, particularly the growth drivers of AWS and the performance of other emerging businesses. This information helped analysts better understand the company's operations and future direction and improved the accuracy of earnings forecasts.

4. Conclusion & policy implication

4.1. Conclusion

The essay examines the motivations of corporate management for voluntary disclosure and its economic consequences for the firm itself and other participants in the market. The main findings emphasize several key hypotheses driving voluntary disclosure, including the capital markets transaction hypothesis, the competition for control hypothesis, the stock option hypothesis, the empire building hypothesis, and the agency cost hypothesis. The economic impact of such disclosures is also explored, emphasizing the benefits to firms in terms of reduced corporate financing costs and increased investment efficiency, as well as the broader market implications for investors, peer competitors, and analysts. The study also suggests potential directions for future research, such as expanding the range of research participants, focusing on the quality and usefulness of disclosures, addressing endogeneity, and exploring new forms of disclosure through digital platforms.

4.2. Policy implication

Enhancing Transparency at the Company Level: Companies should aim to increase the transparency of their disclosures, including not only financial data, but also non-financial information that provides comprehensive information about the company's operations, risks and future prospects. And, maintain investor confidence with regular updates and clear communication through quarterly and annual reports and regular updates at investor conferences. Ensure clear and understandable communication so that all stakeholders can correctly interpret the disclosed information. Further, digital platforms can be utilized. With the growing importance of digital communication channels, companies should utilize social media, company websites and other online platforms to disseminate information quickly and broadly, thereby enhancing the reach and impact of the disclosure. Furthermore, engage with analysts. Proactively engage with financial analysts and provide them with detailed and accurate information to help improve their forecasting and analytical. Last but not least, balance disclosure: while transparency is critical, companies should be mindful of the potential risks of over-disclosure. Take a balanced approach that considers both the benefits of disclosure and its possible negative impacts.

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