CHAPTER 3

VOLUNTARY DISCLOSURES AS PART OF FINANCIAL DISCLOSURES – NATIONAL & INTERNATIONAL SCENARIO
3.1 Background of Voluntary Disclosures:

Gone are the days of minimalist corporate reporting. With the market crying out for more information and companies continuing to report in the traditional manner, something really need to change! Companies are expected to issue financial reports in compliance with the legal framework and the accepted accounting principles of their country of domicile. In India, the minimum levels are specified by the Companies Act, the Accounting Standards Committee and for listed companies the Stock Exchange, 1973. Depending on the inherent flexibility of the prevailing principles, some disclosure about the actual measurement and aggregation of the accounting numbers is typically required. Any additional piece of information being provided in the financial reports can be viewed as a supplemental / voluntary disclosure.

Dis(incentives) for disclosures mandated under the statute law (termed statutory reporting) are quite distinct from those for the additional (or non-statutory) ones. Non-statutory disclosures in the annual reports have been termed as Extended Corporate Reporting (ECR) by some IT companies.

The concept of market globalization and increased complexity in the business environment has forced companies in becoming more international in their orientation. Firms competing for funds in the international capital markets provide a wide variety of voluntary disclosures beyond those that are mandated by law. The pressure for information associated with the worldwide competition for investment funds manifests itself in the supplemental, voluntary disclosures. Gray and Roberts (1989) find that stock market pressures dominate other pressures in encouraging voluntary disclosure. While capital markets now offer unforeseen investment
opportunities, one important development associated with these trends is the tendency for investors to be confronted with an abundance of information about myriad corporate activities.

The divorce between the ownership and management of corporate sector enterprises, the increasing complexities and size of operations, the growing awareness of the public and their keen interest in the affairs of companies, the changing socio-economic and political environment in the country and greater emphasis on rational decision have created a gap between information needed by the stakeholders and information provided in the financial statements. The gap have forced enterprises to report additional information in the financial statements relating to issues such as management discussion & analysis, management’s analysis of such data, FAQ and other forward-looking information. Therefore, there arises the utmost necessity of corporate reporting to enable users to look forward, and to enable an understanding of the company’s business model.

In today’s environment where corporate management must work hard to reestablish a relationship of trust with their stakeholders, one way to increase managerial credibility is to voluntarily disclose additional information. The Sarbanes-Oxley Act (and other legislation / Securities and Exchange Commission requirements) will lead to an increase in the level of available information; any management team that goes beyond the extent of legal requirements by releasing meaningful additional information on a voluntary basis is likely to significantly enhance its credibility among investors. Moreover, honest reporting about negative experiences is likely to enhance credibility.

Generally speaking, there are six different units of measuring the level of voluntary disclosure: (1) Portion of total disclosure; (2) Portion of pages; (3) Number of lines; (4) Number of sentences; (5) Number of words; and (6) Frequency of lines mentioned.

The reasons advocated for providing additional disclosures relates to both external and internal objectives. Externally, relevance to the capital market is perceived as the main driver of business reporting, as the underlying premise that improving disclosure
makes the capital allocation process more efficient and reduces the average cost of capital. Information today is the lifeblood of capital markets. Investors risk their hard-earned capital in the markets, and they rely on information they receive from companies in making their investment decisions. Blair and Wallman argue that 'the lack of good information about the most important value drivers in individual firms, and in the economy as a whole, makes it more difficult for managers within firms and individual investors in the capital markets to make sensible resource allocation decisions' (2001). Internal relevance is the ability to communicate strategy, vision & mission statement, corporate objectives to employees throughout the firm.

The Jenkins Committee has acknowledged the need of voluntary disclosures and it stated “that further study would provide important additional information to standard setters, regulators and others charged with maintaining and improving the relevance of business reporting (AICPA, 1994)”. The bankruptcy and subsequently collapse of Enron Corporation, a Houston based energy-trading corporation in Dec. 2001, forced the FASB, SEC and US Congress to reform accounting, auditing, reporting, corporate governing and the whole securities business. Regulations alone or ‘minimum’ disclosure will not stop failure of Enron type corporations in the future, but open and vibrant capital markets should force managers to voluntarily disclose relevant information because it is in their own best interest. Mandatory corporate disclosures are often difficult to implement and monitor as they are resisted by the management. The Jenkins Committee, FASB and SEC’s receptiveness to voluntary disclosures is a departure from tradition. The mandatory requirements are not satisfactory in order to meet user’s needs and the future of corporate reporting includes aspects currently perceived as voluntary (DiPiazza & Eccles 2002). Eccles, et al. (2001) argue that the implications of this will be moving companies practices from a performance measurement agenda to a performance reporting agenda. The argument made by him is that if the information is important for the management of the company, then it is also relevant for external parties. Voluntarily, a company may disclose much more information in the annual reports which may relate to employees, environment pollution, human resource accounting, social accounting, value added statements, guidance notes, diagrammatical and graphical presentations and many others. Voluntary disclosures include guidance
notes or recommendations which are designed primarily to provide guidance to members on various matters. Information which cannot be conveniently included in the statements are included in the notes, only a tool of voluntary disclosures. Expanded disclosures increase “transparency” with respect to the operations of the company and company’s future prospects and provide benefits to companies, investors and the general public. Given the increasing complexity of business today, there is a need for annual reports to include comprehensive yet concise information that, among others, analyses and explains the main factors underlying the results and financial position of a company.

Accounting Theory of Disclosure maintains that voluntary disclosure mitigates resource misallocation on capital market by reducing information asymmetries between insiders, investors and the associated cost of capital. The existence and magnitude of this effect, however, depend on the perceived credibility of voluntary disclosure. According to The Financial Accounting Standards Board (FASB), “making additional disclosures is to provide important information in the interim while other accounting issues are being studied in more depth” (FASB, SFAS 105, 1990). Its significance in the efficient operations of free markets cannot be overemphasized. “Accounting and financial reporting are linchpins to the success of our capital formation process; and accountants, along with others such as lawyers and underwriters, are the gatekeepers of our financial markets” (Wallman 1996). Value of financial reports lies in their usefulness to the users (FASB, SFAC 1, 1978). If financial reports do not serve their intended purpose, they lose their reason to exist. Numerous studies have been conducted on the investor’s information needs, their discontentment with the poor quality of corporate financial reporting that led to the Securities Act in 1933 followed by the enactment of the Securities Exchange Act in 1934. In the United States and other free market economies full disclosure is often dubbed as “disclosure statutes”. The assumption is that while investors cannot avoid capital market risks, availability of information can help them assess the risk better and enable them to make more rational investment decisions.

In 1991, the AICPA formed a Special Committee on Financial Reporting to address increasing concerns about the relevance and usefulness of financial reporting. The Jenkins Committee has also acknowledged the need of voluntary disclosures when it
stated "that further study would provide important additional information to standard setters, regulators and others charged with maintaining and improving the relevance of business reporting" (AICPA 1994). The Committee's charge was to recommend the type and extent of information that management should make available to other stakeholders. After several years of research, the Committee recommended that companies provide investors with a number of additional disclosures including more segment details, supplemental non-financial data and additional forward-looking information. The Committee suggested that, companies that disclose such information are likely to receive private benefits from a lower cost of capital.

Consequently, in addition to making mandatory disclosures, more and more companies are disclosing information on a voluntary basis - access to more material information showing increased awareness for investor's information needs. Voluntary disclosures - disclosures in excess of requirements - represent free choices on the part of company management's to provide accounting and other information deemed relevant to the decision needs of users of their annual reports. Firms have incentives to provide voluntary disclosures. Companies compete with each other in capital markets on the type of securities offered and on the terms and expected returns promised. There is also uncertainty about the quality of firms (e.g. in terms of the nature of their assets and riskiness of cash flows) and their securities. Investors demand information to assess the timing and uncertainty of current and future cash flows so that they may value firms and make other investment decisions such as choosing a portfolio of securities. Companies satisfy this demand in part by supplying voluntary accounting information, thereby enabling them to raise capital on the best available terms. Items of voluntary disclosure provided by a firm are management discussion of the competitive environment, business strategy, its goals & missions, principal products produced and markets served and, forecasted operating and financial data and other such information.

It appears that mandatory disclosures are not sufficient to meet the information needs of the stakeholders of the company. To address concerns about the relevance and usefulness of financial reporting, the Steering Committee of the Financial Accounting standard Board (FASB) made the following observations in an overall Business Reporting and Research Project titled "Improving Business Reporting: Insights into
Enhancing Voluntary Disclosures”, in 2001 identified the need of voluntarily disclosing the following information for enabling the stakeholders of the company to make more informed investment decisions -

1. Critical success factors of the company - the factors that are especially important for the companies success.
2. Management strategies and plans.
3. Companies forward looking strategies and plans.

Relying on intuition, however, is not the best way to make decisions about voluntary disclosures. The Steering Committee on Business Reporting and Research Project undertaken by FASB developed a basic framework for providing voluntary disclosures, that is, a process for (a) identifying information that would be helpful to investors and (b) deciding whether disclosure would be appropriate.

Informative disclosures help investors better understand a company’s strategy (including how it addresses opportunities and risks); critical success factors that are important to the company’s future; the competitive environment within which the company operates; the framework within which decisions are made and the steps the company is taking to ensure sustainable results. Companies that make voluntary disclosures have chosen to differentiate themselves by enhancing the amount of business information they provide. Effective voluntary disclosures can provide more transparency and understanding about the company to investors and creditors.

By providing evidence that many leading companies are making extensive voluntary disclosures and by listing examples of those disclosures, the Steering Committee expects that more companies will undertake or expand their efforts of providing voluntary disclosures.

3.2 Nature of Voluntary Disclosures:

As we move into the 21st century, voluntary disclosure as currently may well be affected by the fact that the business environment is changing dramatically, and at an
accelerating pace. These rapid changes, some of them massive in nature, will manifest themselves in increasing and changing demands for business information and a larger role for voluntary disclosures. Accompanying this will be an increasing ability to supply more information. In addition, the existing regulatory and standard-setting systems will in all likelihood struggle to keep up with the changes.

Globalization and the spread of ownership will obviously result in larger audiences for business information. Some will be more sophisticated and many less so, and there will be a greater international component. There will also be more and different investment styles to take into account. Also, technology will mean that more information - and more sources of information - about companies will be available to people, many of whom will not be equipped to judge the quality and validity of what they see.

There will be considerably more competition, not just for capital, but for people and resources. Capital markets may well become more volatile and unpredictable. Consequently, a company’s reputation may become an even more significant factor in how well it succeeds in competing for both people and capital. The rate of change in the business environment will make voluntary disclosures even more important, than they are today.

Moreover, the Steering Committee identified the following key forces leading to transformation of the business environment thereby necessitating and demanding increased corporate disclosure:

- Economic Factors such as globalization, the democratization of ownership, technology driven competition, focuses on wealth creation and changes in the nature of business assets. The Business Week, in a special issue on “The 21st Century Corporation”, August 28, 2000, says that “human capital is the only asset”.

- Government and Political Factors such as philosophical shifts, the nanny state, focus on human rights.

- Social Factors such as change in the nature or locus of authority, decline of enlightened user’s trust, litigiousness, the need for intermediaries, value shifts,
time pressures and more stewardship asking for increased level of social responsibilities and accountability.

- Technological Factors such as the computer revolution and the rapid spread of the internet.
- Organizational Factors such as mergers and acquisitions, permanent or temporary alliances, formation of virtual organizational the great use of stock options.

The AICPA Special Committee on Financial Reporting (The Special Committee) was formed in the spring of 1991 to address concerns about the relevance and usefulness of financial reporting. In 1994, the AICPA's Special Committee on Financial Reporting introduced a report to improve business reporting based on five categories that are assumed to be linked to the information needs of users. In 2001, their framework was enriched by a sixth category from the Financial Accounting Standards Board (FASB). The final categories are:

a) Business Data, which refers to the major performance measures and operating data that management frequently uses for the purposes of control (e.g. sales and financial performance).

b) Information about Management and Shareholder introduces the board of directors and management and the principal shareholders and creditors are identified, and data about the percentage ownership of major individual and institutional shareholders is presented.

c) Background about the Company broadly describes the company's tangible and intangible assets.

d) Information about Intangible Assets provides details on areas such as R&D, human resources, innovations, patents, brands and trademarks.

e) Management's Analysis of Business Data reports on key trends and their effects on the business.

f) Forward-Looking Information reveals forecasts of predicted key trends and the opportunities and threats associated with these developments.
FASB also suggested that companies should be encouraged to continue improving their business reporting and to experiment with the types of information disclosed and the manner by which it is disclosed.

Voluntary disclosures are made at the discretion of the management of the company. A distinction is made between two different sets of financial information - a ‘basic’ and an ‘additional’ set. The basic set of financial information is available to all market investors, while the additional set of financial information is available only at the discretion of the management. Information of the latter type is a subset of the private information being possessed by the management. For e.g., the additional set of financial information, might include detailed information about the company order book, knowledge about the ‘true’ profitability and potential of various business segments, or information about the current market value of specific assets and / or liabilities. If the cost of making a disclosure is not ‘too high’ and the credibility of the disclosure is not ‘too low’, it can be rational for company managers to voluntarily disclose private information.

The basic set of financial information can be expected to contain accounting numbers from published financial reports, as well as (non-accounting) information about important firm characteristics. Since the information is publicly available, the firm characteristics might be concerned with a few general qualities, such as size, business activity, market positions, type of organization and / or taxation status.

R. Devaranjan said corporate reporting is a variable to be adjusted or manipulated by management in support of its strategies and goals, subject to whatever statutory disclosure constraints exist. If financial reporting is to be made really useful for the society, it must provide relevant, reliable, timely and transparent information about its various events and actions.

In India, corporate reporting practices have changed significantly, in the recent years. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India, the amendments of the Companies Act, 1956 as well as the SEBI have issued various standards and regulations to bridge the gap with International Accounting Standards. For instance, the SEBI requires the listed companies to include
management discussion and analysis of business and corporate governance report in their annual reports. As a result, the annual reports should be richer in information content. Indian companies that plan to attract international finance are likely to follow the practice of voluntary disclosures, by setting up standards for voluntary disclosures.

Voluntary disclosures include non-financial information supplementing financial information provided in financial statements. Financial statements cannot capture the economic events of all events because of measurement problem and it is not possible to provide a common list of qualitative information that must be disclosed by all companies because critical success factors differ between countries.

Voluntary disclosures mostly contain qualitative factors that have significant influence on the business of the company. Voluntary disclosures must also include qualitative information that is not verifiable because models used in their estimation are yet to receive general acceptance among experts. Information included in voluntary disclosures is not certified for its fairness by the auditors. But users expect auditors to communicate their opinion to shareholders and other users. The ICAI should therefore frame standards on auditors responsibility relating to management analysis and disclosure.

While capital markets now offer unforeseen investment opportunities, one important development associated with these trends is the tendency for investors to be confronted with an abundance of information about myriad corporate activities. FASB (2001) defines business reporting as all the information that a company provides in order to help investors with their capital allocation decisions.

There are two types of voluntary disclosures; the first is the voluntary “recognition” of specific items as assets in financial statements and / or in notes to the financial statements. This particular type of voluntary disclosure has been considered in the capital market literature where the biggest motive for voluntary recognition is to decrease information asymmetry in the market in order to improve the company’s chance of issuing public debt or equity, or to reduce contracting costs and the
litigation costs, to reduce the likelihood of under-valuation and to explain away poor earnings performance (Healy and Palepu, 2001).

The second type of voluntary disclosure involves the reporting of corporate information that normally cannot be recognized on the face of the financial statements. These disclosures therefore appear in sections outside the financial statements and their notes, but within the annual accounts of corporations. Examples of this particular disclosure type are corporate information regarding the environment, social responsibilities, employees and intellectual capital. According to Boesso (2002), better corporate information can improve relationships with customers, suppliers, employees, managers and other stakeholders. This kind of corporate information may therefore improve decision making, accelerate learning, help the execution of strategies, empower employees and augment communication effectiveness. It can also increase the loyalty, commitment and trust of all key strategic stakeholders (Levinsohn, 2001; Canibano, et al., 2000; Ittner and Larcker, 1998).

Corporate annual reports now contain a large volume of supplementary data that are provided with the main objective of making up the deficiencies underlying the basic financial statements. Some of these data are prepared by recasting the data that are already contained in basic financial statements, while others are generated using additional information sources. The nature and significance of the data disclosed by companies on a supplementary basis vary from country to country. In some cases, the variation is substantial. The format of financial statements has been modified from time to time in order to give them a decision-making focus but things have not improved materially as a result of this. The historical character of the financial statements still continues to persist. This is why there has arisen a need to choose an alternative path of enhancing the usefulness of financial reporting by disclosing decision-oriented information on a supplementary basis outside the basic financial statements. The disclosures that are made by companies outside the basic financial statements assume, in most cases, a narrative form with a view to enhancing the usefulness of the data contained in the basic financial statements. Voluntary reporting is capable of reducing existing information asymmetries or information gaps between shareholders and management.
The figure below provides an overview of these gaps:

**ANALYSIS OF VARIOUS INFORMATION GAPS:**

![Diagram of information gaps]

**Figure 3.1 Analysis of Various Information Gaps.**

Source: Modified from Pricewaterhouse Coopers, Comparing for Capital-Reorganising Utilities' Worth.

A *perception gap* exists if the market perceives the utility of information differently than by the company. An *understanding gap* occurs when the different stakeholders and management assess the data in different ways. An *information gap* means that key performance data from the perspective of market participants is not communicated to them adequately. In addition, management has to report their business goals to enable investors to draw their own conclusions about whether or not the stated objectives can be realized, and if this requirement is not fulfilled, a *reporting gap* results. A *quality gap* signifies that the information about key performance measures is not as reliable as it should be. Finally, the *value gap* represents the difference between the company's current market value and management’s perception of what that value should actually be. In effect, the value gap represents the cumulative impact of all the
other gaps and reveals the extent of the communications breakdown between the company and the market.

Another Value Reporting Model have been developed to close the information deficits between companies and their stakeholders as an alternative approach to voluntary disclosures. The PWC Model of Value Reporting™ is composed of four interlinked components: Market Overview, Value Strategy, Managing for Value and the Value Platform.

The Market Overview discusses the company's competitive situation, different views on the regulatory environment and experts' perceptions about developments in current and future technologies as well as industry's future growth. The Value Strategy reviews the corporation's overall strategy and strategies for individual business units. The Managing for Value evaluates the measures that the corporation considers to be most critical from a stakeholder value perspective. It also considers actual performance in comparison to the firm's targets presented in conjunction with performance against competitor benchmarks. Finally, the Value Platform focuses on activities and relationships showing how the corporation creates value. This sector displays the critical value drivers associated with growth in intangible assets (e.g. innovation ability, brand management, the efficiency of the supply chain and increasing customers). It also reports on key areas of the organization's performance in relation to its environmental, ethical and social responsibilities.

The PWC Value Reporting™ Model:

<table>
<thead>
<tr>
<th>MARKET OVERVIEW</th>
<th>VALUE STRATEGY</th>
<th>MANAGING FOR VALUE</th>
<th>VALUE PLATFORM</th>
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</table>
| 1. Competitive environment.  
2. Regulatory environment.  
2. Objectives.  
3. Governance.  
2. Financial position.  
3. Risk management.  
2. Brands.  
4. Supply Chain.  
5. People.  

Figure 3.2 The PWC Value Reporting™ Model.

Voluntary disclosures bridge these gaps because more informative disclosures reduce the information asymmetry between the company and the capital markets, thereby diminishing uncertainty regarding the company's future prospects and leading to more accurate forecasts on which investors can base their investment decisions. Vanstraelen, Zarzeski and Robb (2003) confirmed that higher levels of forward-looking non-financial disclosures are associated with lower dispersion and higher accuracy in financial analysts' earning forecasts. Existing theoretical research also implies that enhanced disclosure leads to a lower cost of equity capital through enhanced market liquidity and/or reduced uncertainty. Therefore, voluntary disclosures are of growing importance in today's capital markets.

Leading companies are beginning to build stakeholder trust and simultaneously improve their business performance by measuring and reporting on both financial and non-financial indicators related to such issues as environmental, management, worker relations and social responsibility. In fact, they are creating a new kind of competitive advantage by linking value and values, to position themselves as the companies of choice among customers, employees, investors, suppliers and the community at large. Thus, companies need to make difficult cost-benefit decisions when determining how much voluntary disclosure is appropriate. The extent to which voluntary disclosures would harm competitive position of companies requires judgement. What is harmful for one company may not be harmful for another or what is harmful at one point of time may not be harmful if disclosed later. Due to the apparent ever-increasing rate of change, it is expected that more companies will undertake or expand their efforts of providing voluntary disclosures in the future.

The types, nature, volume, direction and magnitude of voluntary disclosure practices vary substantially across countries as well as from firm to firm within a particular country depending upon the size, age & earnings of the reporting firm. The items of voluntary disclosures generally disclosed in the annual reports of companies are as follows:

2. The Year at a Glance.
3. Awards and Achievements of the Company.
3.3 Voluntary Disclosures – International and National Scenario:

I) International Scenario:

The field of voluntary disclosure research has remained robust and ever-changing for the last two decades. Disclosure of additional information on a voluntary basis by the management of companies should not be construed as an aimless exercise. Research studies have confirmed that a host of considerations induce management of a company to disclose voluntarily rather than waiting for mandatory requirements.
Buzby (1975) found that the extent of disclosure was positively associated with the size of a company’s assets and was not affected by whether the firm was listed or not. Singhvi & Desai (1971) found that the listing status (quoted or unquoted) was a major explanatory variable in accounting for the disclosure level. They also found a relationship between higher levels of disclosure and 1) greater asset size, 2) greater number of shareholders, 3) large auditing firms, 4) higher rates of return & 5) higher earnings margins. Cerf (1961) also derived a disclosure index which was applied to annual reports and he found that asset size, no. of shareholders and listing status were all positively associated with greater / additional disclosure levels.

Large firms tend to make additional financial disclosures (Buzby 1975, Singhvi & Desai 1971), due to the following reasons: firstly, that collecting and disseminating information is a costly exercise and perhaps it is the larger firms who can best afford such expenses. They are likely to collect the information needed for corporate report disclosure for their internal management systems and hence little extra cost may be incurred. Secondly, large firms tend to be listed on the Stock Exchange and they may go to the stock market for financing, they may find it in their interest to disclose more in their annual reports. Thirdly, greater disclosure shall build more confidence to investors. Singhvi & Desai (1971) used three additional variables in their study - number of shareholders, rates of return and earning margins. These variables increase voluntary disclosure levels. Similar observations were laid by Moore & Buzby (1972).

Singhvi (1967) examined corporate disclosures through the annual reports, both in the US and India, for the period 1964-65 by using a disclosure index consisting of 34 items. The study was conducted on a sample of 155 US companies (100 listed and 55 unlisted and 45 listed Indian Companies). Findings of the study demonstrated the following: Companies in the US that were disclosing inadequate information were small in size (as measured by total assets and number of shareholders, free from listing requirements, audited by a small CPA firm, and less profitable (as measured by the rate of return and earnings margin). For the listed Indian Companies, on the other hand, the study found that the companies that disclose inadequate information were small in size (as measured by total assets and number of shareholders), less profitable (as measured by the rate of return and earnings margin) and managed by Indian
managers. Internationally, many leading companies of the US disclose much more information than what laws, regulations and accounting standards require.

Financial statements are voluntarily issued by entities not under the jurisdiction of the SEC. For instance, Days Inns of America, Inc. is a privately held company operating in the lodging industry. Each year since 1976, it has voluntarily issued a detailed annual report. Many municipalities in the United States also issued financial statements despite there being no mandate by a regulatory body to release this information. Moreover financial statements of eighteenth and nineteenth centuries exist for some US firms (although mandates were issued in the twentieth century and formation of SEC in 1930).

Michael Firth tried to design the list of items of voluntary information that would appear in corporate annual reports and being useful for investors and various other users of financial statements. Similar researches were made by Anderson (1962); Backer (1970); Bradish (1965); Buzby (1974, 1975); Cerf (1961); Chandra (1974); Choi (1973); Horngren (1970); Pankoff and Virgil (1970); Singhvi and Desai (1971). However, the list was subjected to two criteria. The first is that the items should exclude those items that had to appear in annual reports because of statutory regulations (e.g. Companies Act). The second criterion is that the item was almost certainly bound to be present in a company. For example manufacturing firms (which make up the sample) engaged in research and new product development and they can therefore publish a narrative summary, if they so wish.

Some firms voluntarily issue financial statements at more frequent time intervals than is mandated by regulatory bodies. For e.g. both the SEC and NYSE mandate US companies to file quarterly reports, some companies however voluntarily release monthly interim reports.

Some firms release considerably more information in their financial statements than is mandated by regulatory bodies. For instance, companies in Australia and the UK are not required to disclose market value of their properties, however considerable number of companies reports such information in their annual reports.
Voluntary disclosures also include social information like product safety and quality and about company’s environmental activities, currently demanded by individual investors in both India and abroad. Companies should also voluntarily report on corporate ethics, employee relations and community involvement. Disclosure of social action is at present largely voluntary, there has been substantial work addressing the need and appropriate mode for social reporting (Linowes 1974; Seidler and Seidler 1975; Ramanathan 1976). The SEC adopted a set of disclosure amendments in 1973, which required increased disclosure by registered firms in environmental matters. Subsequently, in 1975, the SEC held court ordered hearings on “disclosure on environmental and other socially significant matters”, which resulted in disclosure rules pertaining to capital expenditures for environmental purpose.

There has been an increasing demand for corporate social responsibility reporting and “it is apparent that the issue of external reporting of corporate social performance is building up a head of stream” (Diley, 1975). The SEC was ordered by the federal district court to disclose the type of information the public interest groups have required (The Wall Street Journal, 1974). Several accountants have suggested that the accounting profession should become involved with corporate social responsibility reporting (Estes 1972; Linowes 1972; Tipgos 1976), a part of voluntary disclosures.

Some companies are voluntarily including forecasts of accounting information. Petell investigated stock return reaction related to executive earnings forecasts that were voluntarily disclosed (1963-68) and concluded that there was a significant price reaction associated with an executive forecast announcement (Crouch 1970 and Ying 1966).

Internationally, since 1975, almost all British Companies are voluntarily including a Value Added (VA) Statement in the corporate reports (Department of Trade, 1977). VA means “wealth creation”. Voluntary disclosure behaviour of Management Earnings Forecasts (MFD) differs between the United States and Canada because of the substantial differences in their legal environments. Canadian managers faced with a less litigious environment than US and they disclose more earnings forecasts which are more precise and of longer range. In US, fear of lawsuits under SEC Rule 10b-5,
reduces a manager's tendency to provide any voluntary disclosure of forward-looking information because of the possibility that earnings may fall short of the forecast (Breeden, 1995).

The SEC (1998) concluded that, voluntary disclosures provide investors and analysts with "new and useful information". The SEC, now requires all large US publicly traded corporations to report qualitative information about their market risk in financial reports.

Accounting and disclosure regulations in Mexico suggest a more laissez-faire environment than in US. A Pricewaterhouse Coopers survey in Malaysia on shareholder value revealed that nearly one-third of public-listed companies found annual reports to be "not very useful" in communicating information about value.

The existence of this gap between the management's perception of their companies value and the value placed on the company's shares in the capital markets means that companies should voluntarily provide non-financial value drivers which includes management's view of the market, business strategy and a company's investment in factors underpinning value - including people, innovation and reputation. In Malaysia, the Capital Market Masterplan (issued in Feb, 2001) advocated to voluntarily enhance the quality of non-financial information disclosed in annual reports by public listed companies.

In the International arena, the International Organization of Securities Commission issued, in 1988, the International Disclosure Standards for cross-border offerings and initial listings for foreign issuers, which made recommendations on operating and financial reviews, trend analysis, discussions of future prospects and of research and development. These standards are voluntary, and they will increasingly be incorporated in National Stock Exchange requirements both for prospectuses and annual reports.

Belkaouei and Karpik (1989) stated that voluntary disclosures on social and environmental information play an important role on political costs. Disclosure of
environmental information is to reassure the public, that companies were doing everything possible to reduce the negative impact of their activities.

In the International scenario, Sydney Gray and Kent Skogsvik refer to the valuation relevance of voluntary disclosures of the major pharmaceuticals industries in Sweden and UK. Voluntary disclosures are provided at the discretion of company managers. According to S. J. Gray and K. Skogsvik, such disclosures are concerned with the effects on important numbers if alternative measurement principles had been used, forecasts of key financial numbers, or information about more qualitative aspects of a company. Voluntary disclosures supposedly provide information which goes beyond the requirements inherent in company law and the prevailing accounting standards.

Some of the investigated disclosure areas are particularly forward-looking and in a straight-forward way valuation relevant - i.e. information concerning 'business growth', 'dividend policy' and 'earnings persistence'.

Miller (2002) states, "incomplete information fosters uncertainty, uncertainty creates risk, risk motivates investors to demand a higher rate of return, that results in a higher cost of capital and lower security prices".

Roper (1948), Sanders (1949), Horngren (1957), Cerf (1961), Pankoff and Virgil (1970), Singhvi and Desai (1971), Buzby (1974) and Chandra (1974) gathered evidence through interviews, mail surveys and laboratory tests to highlight inadequacies of information in corporate financial reports and recommended ways to improve both the quantity and quality of disclosure in those reports. Chang and Most (1985) conducted an extensive questionnaire survey of individual and institutional investors and financial analysts in the US, UK and New Zealand and found additional information increase the usefulness of financial statements.

In a study sponsored by the Association for Investment Management and Research (AIMR), Knutson (1993) made a strong case for expanding the information contents of corporate financial reports. In a report, the American Institute of Certified Public Accountants (AICPA) special committee, headed by Edmund Jenkins (commonly
referred to as Jenkins Committee), made some far-reaching recommendations to improve corporate reporting practices.

Epstein and Palepu (1999) found current corporate disclosures to be inadequate and concluded that a vast majority of analysts would like more information on key business risks and uncertainties.

Internationally, both the IASC / IASB and International Organizations of Securities Commission (IOSCO) and International Federations of Stock Exchanges (FIBV / WFE) have actively promoted greater disclosure by firms and transparency of financial information. Studies show that Lang and Lundholm (1993) find a high, significant and positive correlation between annual report disclosures and other forms of disclosure (Holland, 1998). For US firms, Lang and Lundholm find disclosures negatively associated with forecast dispersion but not significantly related to forecast accuracy. Similarly, for firms in Sweden, Adren (1999) finds no significant relationship between an active and informative disclosure strategy and forecast accuracy. For Singaporean firms, Eng and Teo (2000) report that, if earnings changes are controlled for, the amount of annual report disclosure are not significantly related to forecast accuracy.

Trotman and Zimmer (1968) found that voluntary disclosures are not useful unless they are readily available and processable. Adolph Berle, Jr. demanded the management to accept public responsibility to make fuller disclosure of corporate affairs, particularly to investors. Meek & Gray (1989) argue that multinational firms adopt voluntary disclosure to assuage institutional and market-related pressures. Bushman and Smith (2001), states, that firms with timely disclosure of high quality financial accounting information can effect economic performance through accounting’s role in reducing information asymmetries among investors.

Researches made by Akerlof (1970) showing that voluntary disclosures can be expected by market participants who possess 'above average' quality. Penman (1978) indicated that voluntary disclosures might induce a fully revealing capital market equilibrium. A more rigorous analysis, stressing the importance of proprietary costs, was carried out by Verrecchia (1983). Characteristics of this research - Ohlson &
Buckman (1981), Ronen & Livnat (1981) and Dye (1985) - is the idea that accounting information merely can be modeled as a signaling device.

As a consequence, the descriptive content of voluntary disclosure has, more or less, been confined to naïve and/or construed classifications, such as ‘disclosure’ vs. ‘non-disclosure’, ‘much disclosure’ vs. ‘less disclosure’ or ‘good news’ vs. ‘bad news’. Fundamental accounting concepts and measurement issues have been conspicuously ignored.

In the international scenario, most of the studies that have examined the voluntary disclosure practices of companies have analyzed voluntary disclosures as non-mandatory information that is made available in order to meet the information needs of the financial markets and investors (Healy, 2001; Han and Wild, 2000; Lenz and Verrecchia, 2000; Verrecchia, 2000). Since, the issue of voluntary disclosure is of significance to the global economy, one need to be careful and sensitive about differences in voluntary disclosure practices that could be driven by actions of the Government, regulators and other stakeholders due to differences in country contexts.

Vandemaele, et al. (2005) found that Swedish companies make more voluntary disclosures about intellectual capital than do companies from the UK and Holland. Similarly, studies conducted by Brennan (2001) and Bozzolan, et al. (2003) found differences in the emphasis placed by Irish and Italian companies on disclosures regarding organizational, rational and human capital issues. While Brennan (2001) noted that there was little or no reporting of intellectual capital in Irish company annual reports, Bozzolan, et al. (2003) found that disclosures by Italian companies mainly occur with regard to external structure – customers, distribution channels and business collaborations.

Researchers have noted that the information offered in voluntary disclosures can be classified as quantitative, operational and forward-looking (Gray, et al. 1995; Eccles, et al. 2001; Epstein and Birchard, 2000; Milne and Adler, 1999). Information may be classified: disclosures in terms of type of information – qualitative and quantitative; nature of information – financial and non-financial and information on outlook – forward looking and historical.
In addition to classifying the information, relative weights were also assigned to the nature and quality of information disclosed within each of the three categories listed above. The quality of information disclosed is a much debated issue in the literature on voluntary disclosure (Hooks, et al. 2002). Guthrie & Parker (1990) first raised this issue when they observed that the focus in analyzing disclosure statement should be on both, "what was said and how it was said". Following this line of thinking, many researchers have gone beyond only counting the number of disclosures made, and have assigned weights to the information based on the type of information disclosed (Botosan, 1997; Bozzolan, et al. 2003; Eng and Teo, 1999).

It seems appropriate, therefore, to award a higher score to non-financial disclosures, since they represent the kind of information that is otherwise lacking in voluntary disclosures (Ittner & Larker, 1998). Finally, Hooks, et al. (2002) point out the increased interest in corporate accountability as expressed through forward looking information and Lev & Zarowin (1999) propose to make this kind of information even mandatory since it gives stakeholders a better perspective on a company’s sustained ability to create value. As such, information classified as forward looking can be assigned greater weight than historical information.

Empirical research includes descriptive studies of voluntary disclosures, Meek & Gray (1989), studies of association between voluntary disclosure and various firm descriptions. Cooke (1989), Gray, Meek & Roberts (1995), studies of the association between voluntary disclosures and the behaviour of stock market prices (Kochanek, 1974; Horwitz & Kolodny, 1977).

As per American, British and Swedish companies, there is a marked tendency for large / or multinationally listed company to publish voluntary disclosures. There is a tendency for voluntary disclosures to increase at the time of a stock market introduction or an issue of equity capital. In Kochanek (1974), however, the correlation between changes in the historic stock price and the current change in net income was found to be stronger for companies with 'high quality' segmental disclosures than for companies with 'low quality disclosures'.
Helen Kang & Sidney J. Gray (2009) examines corporate voluntary disclosure issues, with an emphasis on disclosure practices in developing markets, and reviews different applications of the use of content analysis in measuring voluntary disclosure levels. A total of 48 voluntary disclosure studies selected from the last two decades of research are reviewed and a variety of voluntary disclosure issues, including social responsibilities, environmental issues, corporate governance, non-financial information and intangible assets are identified. Further, corporate and country-specific factors which may be associated with disclosure levels are assessed. The applicability of content analysis and potential problems associated with its use as a research method to measure voluntary disclosure levels are critically examined.

Over the past several decades, many theories are in existence and many empirical studies have shown that a variety of considerations motivate management of a company to disclose information voluntarily and not wait for mandatory requirements. Some important considerations for voluntary disclosure of information are:

1. Stock market considerations.
2. Political costs considerations.
3. User's needs considerations.
4. Ideological goal considerations.

Stock market considerations: Several studies e.g. Belkaoui (1976); Andersan & Grankle (1980); Shane and Spicer (1983); Jaggi and Freedman (1982); Gray, et al. (1990) have corroborated that management of a company may be motivated to provide social disclosures to influence the stock prices with the genuine apprehension that market would punish less disclosure.

User's needs considerations: Following User's Utility Model, Guther and Parker (1990) argued that companies may be inclined to disclose social information to meet the stakeholders demand for such information.

Social and Political costs consideration: To avoid potential pressure from government regulatory agencies which enforce corporate social responsibility, companies increase
voluntary corporate social disclosures. Government regulation is seen as costly and restrictive on business decision-making. Watt and Zimmerman (1978) suggest that these restrictions adversely affect management’s wealth by imposing the political costs of reduced flexibility in the adoption of potentially profit maximizing policies. Companies respond by employing a number of devices including social responsibility disclosure campaign to counter these government interventions. Corporations make social disclosures not just for their own economic benefits, but because they are pressured to exhibit social responsibility by employees, customers, suppliers, the general public and the social activist groups. Such voluntary disclosures can be viewed as a medium for managing, negotiating or manipulating stakeholders without whose support and approval the organization can no longer exists (Roberts, 1992).

Ideological goal considerations: It has been argued that companies would be motivated to disclose voluntarily additional information to serve their own political and ideological goals (Guthrie and Parker, 1990). Such disclosures would be guided by companies vision and mission, ideologies and goals, which may differ, even from other companies within the same industry.

II) National Scenario:

In India too, the need for voluntary disclosures were felt and realized. However, very few research studies have been conducted in this direction.

Dasgupta (1977) stated that most companies disclose information what is minimum and mandated, but in a few cases, companies disclose voluntarily additional information. Almost similar statements were made by ICAI (1981).

Chakraborty (1994) stated that statutory or mandatory disclosures of information by Indian Enterprises is satisfactory but disclosure of additional information like Human Resource Accounting (HRA), Social Accounting (SA), Value Added Statement (VAS) etc. for disclosing social responsibility of the enterprises do not appear to be significant.

The Research Institute of the Chartered Accountants of India (1981) comments: A significant feature of the published accounts was that much greater information than
strictly required by law - statement of sources and application of funds, accounting policies and information designed to make the accounts more intelligible was being given.

Various empirical research studies also unfolded the truth that voluntary disclosures often foreshadow trends in transnational financial reporting. For example, cash flow statements were commonplace in MNC annual reports even before national accounting regulators began requiring them.

The rate of change in the business-reporting environment will make voluntary disclosures even more important than they are today. In spite of being a late starter, the Indian corporate sector is gradually disclosing more information than the minimum statutory requirement in the financial statements. In the next chapters, (chapters 4 & 5) we shall take up the issue of the types of voluntary disclosures of Indian companies in their financial statements.

3.4 Benefits of Voluntary Disclosures:

In a world of globalization and increasing competition for capital, long-term investors are likely to focus on companies with high level of disclosure in order to reduce their own risks and trading costs. With more transparency and credibility, a new phase in the realm of investor relations may begin.

The management of a company may be motivated to disclose information voluntarily for a variety of considerations in addition to mandatory disclosures. FASB’s Steering Committee on ‘Improving Business Reporting Project’ encourages companies to provide expanded disclosures of meaningful business information. Expanded disclosures that increase “transparency” provide benefits to companies, investors and the general economy.

Eccles and Mavrinac (1995) have achieved a study where the different users categories – managers, financial analysts and investors referred to the potential benefits of voluntary disclosures in the order of importance. All three investigated
users categories 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 importance of the access to the capital, the increase of the balance between the shares price and the shares 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 potential 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 equaled the increase of the information publication costs for the market and the other users”.

Companies that make voluntary disclosures have chosen to differentiate themselves by enhancing the amount of business information they provide. Effective voluntary disclosures can provide more transparency and understanding about the company to investors and creditors. Generally speaking, informative disclosures help investors better understand a company’s strategy (including how it addresses opportunities and risks); critical within which the company operates and the framework within which decisions are made, and the steps the company is taking to ensure sustainable results.

So, the main potential benefits of informative voluntary disclosures can be stated as follows:

1. **More effective allocation of capital:** The general economy benefits from the more effective allocation of capital, the investment effect of a lower cost of capital and more liquid capital markets. Investors benefit from the reduced likelihood that they will misallocate their capital. They can reap the benefit from increased transparency because it enables them to make more informed investment decisions.

2. **A lower average cost of capital:** The Special Committee on Financial Reporting of the American Institute of Certified Public Accountants (1994) (i.e., Jenkins Committee) states that an important benefit of greater disclosure is a lower cost
of equity capital, enhanced credibility and improved investor relations. Companies benefit from a lower average cost of capital. Enhanced disclosures reduce investor’s risk of making poor investment decisions. A company’s cost of capital includes a risk premium resulting from investor’s uncertainty about the adequacy of the information available about the company. Thus, increased transparency reduces the uncertainty premium.

3. Lower stock price volatility: Improved communication with analysts should significantly reduce the uncertainty surrounding a particular company, which should lead to more accurate earnings forecasts, and therefore, less stock price volatility. Lower stock price volatility should lead to a lower risk premium for the company.

4. Improved capital allocation decisions: Additional disclosures leads to improvements in shareholders capital allocation decisions as well as their assessment of risk-adjusted returns. From a macro-economic perspective, increased disclosure should lead to improvements in the markets role as a capital allocation mechanism.

5. By developing and improving voluntary disclosure strategies that have a positive impact on the company’s standing, as perceived by investors, a company may influence the market price of its shares (Fishman & Hagerty, 1989).

6. Increased comparability and internationally useful: Voluntary disclosures can also be very useful in an international context. Such disclosures can highly be useful to those who are interested to compare financial reports produced in different countries. Since there are variations in accounting rules among countries, investors who are involved in cross-border security trading often find it difficult to make meaningful comparisons of the financial reports produced by companies operating in different countries. Voluntary disclosures, particularly those contained in financial statements prepared in substantial compliance with GAAP requirements of various countries and International Financial Reporting
Standards (IFRS), can greatly assist the international investors in comparing investment opportunities available in different countries of the world.

Other perceived benefits are believed to be:

i) Increased managerial credibility.

ii) Increased confidence of the investors on the basis of information provided: Financial markets and the investing audience across the world depend on high quality information to function effectively. Markets can allocate capital best and instill investor confidence only when players can make informed judgements on the level of shareholder value additions on the investments made with confidence on the reliability and credibility of the information provided.

iii) The realization of a company's true underlying value: Revealing information about well-thought out strategies, plans should help investors gain a better understanding of management's intentions as well as comprehend the firm's true value-creating potential.

iv) A better managed company.

v) More long-term investors.

vi) Greater analyst following improved access to, and lower cost of capital.

vii) Access to more liquid markets with narrower price changes between transactions.

viii) The likelihood that investors will make better investment decisions (as users of other companies financial statements).

ix) It is well established in the psychology literature that people perform better when they have challenging but attainable targets, so by publicly committing themselves to achieve published targets, management may have a better chance of increasing the commitment of all employees. This commitment, assuming that it is forthcoming, should lead to a more motivated, focused and energized workforce. Hence, increased disclosure about future plans and objectives may, in unexpected ways, actually lead to enhanced corporate performance.

x) Increase companies ability to attract additional capital.
xi) Benefits from the perspective of both lenders and trade creditors.

xii) Increased knowledge about the challenges and opportunities facing firms may lead to investors taking a longer term perspective on their investments.

xiii) Lesser danger of litigation alleging inadequate informative disclosure and better defences when such suits are brought.

xiv) More liquid capital markets.

xv) Increased competition on account of voluntary disclosures will increase disposable income of the people around the world. As a result, the value of brand becomes greater as a provider of competitive advantage.

xvi) Expanded disclosures increase "transparency" and enables investors to make more informed investment decisions.

xvii) Academic models of disclosure argue that expanded disclosures can help correct firm’s misvaluation and can also increase institutional interest and liquidity for a firm’s stock.

xviii) Additional data on unrecognized intangible assets would be beneficial because of the importance of intangibles to a company's value.

xix) Synchronicity and convergence of financial and management accounting system.

xx) Improve capital market efficiency.

3.5 Limitations of Voluntary Disclosures:

Voluntary disclosures have several merits. They have their limitations as well. Following are the reasons to question the benefits of voluntary disclosures:

1. A company is supposed to provide adequate and accurate information to the investors who are willing to invest in the company. But if the company fails to provide such information or the company disclosed nothing, its cost of capital, if any was available, would be expensible.

2. A company's cost of capital is believed to include a premium for investor's uncertainty about the accuracy, adequacy and timeliness of the information available about the company. But sometimes, the disclosures made are false,
ambiguous and vague about the company's financial and economic prospects. Thus, the company's cost of capital includes a discount instead of a premium.

3. A company uses different metrics or measurements to compare its goals, strategies and compare current performance with previous performances. These performance measurements should be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, if the same metrics are disclosed year after year, or if a more relevant metric becomes available, such disclosures made will no longer be relevant.

4. Sometimes the disclosures made by management about the company’s forward-looking strategies and plans and other information adversely affect the company by aiding its competition or by creating a bargaining disadvantage with suppliers, customers or employees. For example, if the company disclosed a greater level of details about new product plans like the unique features and the reasons for their potential appeal, the company is more likely to be exposed to the risk of competitive disadvantage. There is also the tendency for increasing legal costs for the firm from meritless suits attributable to informative disclosures.

5. Some companies prepare a single definitive list of the important aspects and strategies of the businesses of companies in any particular industry. But the additional disclosures made regarding the strategies and important aspects for all the companies of any particular industry may not be alike. Also, an aspect of the business that management of one company considers important might not be viewed the same way by management of another company in the same industry. Moreover, companies within an industry often compete with each other by employing different strategies. In other words, each company is unique, and a one-size-fits-all approach will not work for all the companies in the industry. Therefore, management of each company needs to make separate additional disclosures of the different aspects of the business that are important to its success based on that management's view of the business.
6. Management of companies are supposed to make informative disclosures on issues such as market share, operating efficiency, strength of vendor-customer relationships, employee satisfaction, management’s goals, strategies and plans etc. It is on the basis of such information, that investors assess the success and invest in the company. Often optimistic management of companies highlights only the bright and rosy picture of the company of its success and ignores the disappointments or hide the dark side of the company.

7. The demand for expanded disclosures by MNC’s has, however, not been received favourably in all quarters. MNC’s feel that while such disclosures would not enhance the utility of the financial statements, they would on the other hand increase their cost and on the other hand, hurt their competitive position.

8. Since demand for financial information comes from various sources, (shareholders, creditors, employees, government, analysts etc.) it is possible that the disclosure of particular information would have different connotations for different parties. For instance, detailed disclosure about new products proposed to be introduced would convey information about the future prospects of a company to its shareholders, but it might also reveal strategic information to competitors thereby reducing the disclosing company’s competitive advantage. The negative effect of disclosure is often referred to as a ‘proprietary cost’. In the presence of such a cost, a firm has to trade off the positive against the negative effects of disclosure.

9. The cost is a factor often used to limit the volume of the voluntarily disclosed information (Singhvi & Desai, 1971). Voluntary disclosure is much constrained by the costs which are involved by collecting, processing, attainment and auditing of data, to which 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.

10. Although increased voluntary disclosures might improve user’s perception about transparency of corporations, providing voluntary disclosure is not fully
unproblematic. Hendrickson (1982) has stated that the provider of voluntary
information have to be aware that too much disclosure might be harmful, because unimportant information might bury significant business information
for the users. Therefore, corporations should be concerned not to create
information overload for users when they disclose human resources, as it may
create a negative impression for the users and could fall back on the
corporations. Emphasis should lie on important facts enhancing the quality of
voluntarily disclosed information in order to meet the expectations of all user
groups.

11. All the stakeholders are not in a position to understand the voluminous
information content in the Annual Reports and Balance Sheet of the companies.
They neither have the expertise for that matter nor the time for the task. They
are obliged to rely on the analysis provided to them by a host of intermediaries,
whose objectivity in analysis is always open to doubt.

The stakeholders should be provided with adequate information with regard to the
affairs of the corporations in which they have a vital interest. Often, the stakeholders
are bombarded with an overdose of information, which make a mockery of the
requirements of disclosure of information.

As far as voluntary disclosure practices are concerned, the managers are often forced
to choose between maximizing the competitive advantage of the firms’ 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.

To avoid financial disclosure overload in future, it will ultimately be necessary to
publish separate, supplemental or summarized reports that serve the different needs of
the various stakeholders. The solution to the problem of information overload
proposed by Wallman (1997) is a user customized system in which the users
determine what information they wish to access from a comprehensive disaggregated
database such as the Securities and Exchange Commission’s electronic data gathering
and retrieval system and compustat. These systems, which are aiding the globalization
of financial markets, would benefit the organization in a number of ways. Firstly, it would benefit cost saving because the publication of an annual report is a costly annual exercise. Secondly, it would aid the investor's decision making, because it would decrease uncertainty. On the other hand, such a system would provide competitors with valuable information. Electronic data will certainly be the primary source of information in the future and annual reports should already be geared to this method of disseminating information. Compilers and users should be encouraged to communicate in order to attain a higher degree of consensus on the extent and importance of voluntary disclosure. Otherwise, the information content of annual reports will not satisfy the needs of all constituents. It will therefore remain an imperfect mechanism in the communication process.

Voluntary disclosures are sometimes criticized for not being value relevant in an economic sense or for simply being irrelevant in making informed decisions about the company. Further, disclosures voluntarily included in the annual accounts of corporations may be biased towards positive, but not necessarily accurate, information since it is difficult to imagine corporations voluntarily including any negative information about their activities. It has, however, been theorized that there exists a voluntary disclosure equilibrium which leads the corporation to disclose information only when its quality is above a certain quality threshold (Langberg and Sivaramakrishnan, 2008). Langberg and Sivaramakrishnan (2008) argue that voluntary disclosures are inherently conservative; companies are less likely to disclose information with poor quality since analysts are skeptical regarding good news disclosures and respond by increasing the level of scrutiny. As a result, the auditors conclude that voluntary disclosures in corporate annual reports meet certain quality criteria which would arguably suggest that, despite being relatively uninformative, good news disclosures are associated with higher stock prices. This is also supported by Robb, Single and Zarzeski (2001) who state that voluntarily disclosed information also usually correlates with financial information.

Unfortunately, voluntary disclosure is not an unmixed blessing. In the traditional industries, past experience in corporate reporting shows that unless forced by regulatory bodies, companies are reluctant to disclose. Voluntary disclosures might be useless at best and harmful at worst. To cope up with the negative consequences, the
management may simply issue general statements about the future that reveal little and simply add noise to the reporting process. Excess transparency may harm the interest of investors since disclosure of sensitive information may adversely affect company performance. However, research shows that the advantages of voluntary disclosures outweigh the disadvantages in almost all the industries. However, by striking a proper balance, voluntary disclosures can help corporations to lower the cost of capital, encourages experimentation, innovation and creativity in providing information and can reduce the information related risks and thus have a positive effect on the price of a company’s stock. Thus, additional or voluntary disclosures can generate more positive economic rewards to the investors, corporations and management than the supposed harms it creates.

In the foregoing chapter, analysis has been made on the voluntary disclosure practices of 10 selected IT companies to study the trends, nature, extent & impact of disclosures to meet the expectations of investors, management, creditors, analysts and other user groups of the financial statements.