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Voluntary Disclosure in Industrial Institutions: A Review article

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Abstract: Transparency, financial performance, and corporate governance remain to be important considerations with respect to voluntary disclosure by industrial organizations. The paper looks into what motivates companies to voluntarily disclose information, the advantages and disadvantages of this process as well as some possible future trends. It achieves this by reviewing some of the well-known theories in literature that include the Agency Theory, Signaling Theory, Stakeholder Theory, as well as Legitimacy Theory. From these perspectives, it would be argued that firms can make good use of voluntary information to bridge any information gaps between them and their users, who may be capital providers or officials; this will then help increase investment and meet legal requirements on reporting. Research findings indicate that voluntary disclosures have a positive impact on financial performance, enhance financial reports, promote greater involvement in corporate social responsibility and increase the overall reputation and value of companies. Nevertheless, there are a number of obstacles such as loss of market share, growth in expenses related to reporting, and absence of uniformity. Further studies need to examine how new technologies, laws on environment, etc., affect and will continue influencing such practices

Keywords: Voluntary Disclosure, Industrial Establishments, Financial Performance, Corporate Governance, CSR, Financial Reporting Quality, Transparency, Investor Confidence.

Introduction: Voluntary disclosure has become increasingly important in financial reporting for businesses, especially those operating in the industrial sector and involved in investor relations. Unlike mandatory disclosures, voluntary disclosure means providing extra financial or non-financial details over and above what is required by law (Healy & Palepu, 2001; Almansoori et. al. ,2022). It is thought that the additional information disclosed would bridge the gap between them and the users of such information thereby increasing investment while at the same time meeting the requirements of the law concerning the presentation of accounts (Botosan, 1997). Due to their huge investments and exposure to risk associated with market variables, capital intensive industries usually make extensive use of voluntary disclosures to attract investment and develop good relationship with international standardized code users (Meek, Roberts, & Gray, 1995). Voluntary disclosure depends on factors such as size of the organization, financial position, corporate governance practices and regulations within which the sector operates (Chen, Chen, & Wei, 2011). A number of academic models exist to explain the motivation behind voluntary disclosure by organizations. For example, according to Agency Theory, businesses may reduce agency conflicts through such disclose that arise when managers' interests differ from those of shareholders due to information asymmetry (Jensen & Meckling, 1976; ; Almansoori et. al. ,2022). Signaling theory argues that strong companies will reveal their strength through disclosure of more information (Spence, 1973). Freeman (1984) noted that Stakeholder Theory highlights the importance of voluntary disclosure in providing information to different parties like investors, employees and regulatory bodies. Similarly, the Legitimacy Theory argues that organizations engage in an act of providing information to the public or stakeholders so that they can be seen to be operating within the public expectation; this view is based on (Suchman, 1995). Nonetheless, voluntary disclosure is not without problems as it may lead to competitive disadvantages, increased reporting expenses and lack of uniform disclosure standards among others. It is important for industries to weigh carefully between being open and risk of giving too much information. This paper reviews current literature on determinants, advantages, disadvantages, emerging issues of voluntary disclosure within industrial set up. Through analysis of both empirical research findings as well as theoretical viewpoints this research seeks to enhance our knowledge on how the industry players can adopt such practices. Background of the study

Healy & Palepu (2001) define voluntary disclosure as information - financial or nonfinancial - that goes beyond what an entity is required by the law to disclose. Voluntary disclosure is a communication instrument through which organizations signal their true position with the environment. On this view, such a practice enables an organization to disclose relevant information that may relate to its performance such as financial report. It also helps an organization in showing that it is monitoring its affairs well. The voluntary disclosure concept draws support from various theories. The research paper provides a detailed analysis of voluntary disclosure practices adopted by different industrial organizations to communicate their financial status, corporate governance and environmental activities especially in capital intensive sectors with strict regulations. One of the theories, Agency Theory, is based on the assumption that managers provide additional information to reduce information disparity and therefore mitigate agency conflicts (Jensen & Meckling, 1976). Another theory known as Signaling Theory states that underperforming companies do not make any voluntary disclosures while those with good performance are involved in such activities so that they can signal their true financial strength in front of others (Spence, 1973; Almansoori et. al. ,2023). According to stakeholder theory, businesses give out information to various parties such as customers, investors, regulators and employees. Legitimacy theory adds that organizations disclose information to maintain their legitimacy given by society and upheld by laws. The literature identifies various factors affecting disclosure choices in industry settings. According to Meek, Roberts, and Gray (1995), larger firms have higher disclosure levels probably because they can be better at managing the requirements of disclosure and also they are under increased public observations with numerous resources within their reach. Among these factors, the company’s governance structure matters a lot such as the independence of the board and the existence of audit committee (Chen, Chen, & Wei, 2011) . Financial performance is also important since profitable organizations would disclose more information in order to help in boosting investor confidence hence maintain positive market image (Botosan & Plumlee, 2002; Almansoori et. al. ,2018) . On top of that, there are factors that affect voluntary disclosures such as regulations in the industry among others especially in highly regulated sectors (Barako, Hancock, & Izan, 2006) . However, voluntary disclosure comes with its disadvantages . One such disadvantage is the fear of giving competitors an edge through too much openness or what is known as competitive disadvantage (Verrecchia, 2001) . Moreover, there can be considerable costs associated with gathering, processing, and disseminating voluntary disclosures (Graham, Harvey, & Rajgopal, 2005) . Lack of standardized frameworks for voluntary disclosure also poses another difficulty as there are no uniform ways of engaging in this across different companies or sectors which may lead to problems when trying to compare one organization’s performance against another’s performance evaluation (Hassan, Romilly, & Al-Shammari, 2009; Almansoori et. al. ,2022) . The recent progression of voluntary disclosure practices can be attributed to digital revolution and sustainability reports . Integrated reporting and electronic financial reporting systems have improved access and relevance of corporate information (Xiao, Yang, & Chow, 2004) . In addition, growing attention towards environmental, social and governance (ESG) reporting has increased voluntary disclosures on areas that go beyond financial but related to sustainability issues also called non-financial disclosures (Michelon, Pilonato, & Ricceri, 2015) . This background lays foundation for understanding voluntary disclosure in industries . Following this introduction, subsequent parts of the essay will present research studies, identify advantages and challenges, as well as predict future developments in voluntary disclosure .

LITERATURE REVIEW

Voluntary Disclosure: Determinants, Benefits, Challenges, and Evolving Trends

The academic community has extensively researched voluntary disclosure because it is perceived as an important tool in promoting honesty and reducing differences in information among different stakeholders thereby encouraging greater public trust in the capital markets. In industrial organizations, research has been done on voluntary disclosure which entails; what causes it, advantages, disadvantages as well as the changes that have occurred over time. This chapter reviews the existing literature to outline the major findings towards understanding voluntary disclosure within industrial context.

1. Determinants of Voluntary Disclosure

Many academic papers have talked about the determinants of disclosure by industrial organizations. Business size is one of these determinants where larger organizations are believed to reveal more information because they are under a close monitoring by the public and there is strict regulations in place for such monitoring (Meek, Roberts, & Gray, 1995; Almansoori et. al. ,2023). Corporate governance is also an important element as it influences the behavior of companies; for instance, entities with effective governance mechanisms such as presence of independent non-executive directors and audit committee would be expected to make more voluntary disclosures than those without such structures (Chen, Chen, & Wei, 2011). On top of that, it is also noted that financial performance determines this kind of behavior for the reason that profitable entities would take every possible measure to ensure that investors believe in them through a high level of transparency (Botosan, 1997). The study also discusses the effect of regulatory and industry factors on the voluntary disclosure. Companies in high regulated industries (manufacturing, energy) usually disclose more information than is required just to meet social responsibility and be seen as following best practice guidelines (Barako, Hancock, & Izan, 2006). Finally, it is important to take into account the fact that ownership structure may affect the level of disclosure with public companies being associated with higher levels of voluntary disclosure compared to private ones (Chau & Gray, 2002).

2. Benefits of Voluntary Disclosure

Research findings also point out on the importance of confidential information in promoting efficiency within the markets. To begin with, it is known that the practice is important in increasing market efficiency because through disclosing information to users of financial statements investors are able to reduce any information asymmetry that may exist and thus come up with better share prices (Healy, Hutton, & Palepu, 1999; ; Almansoori et. al. ,2023). Secondly, voluntary information disclosure plays a part in decreasing the cost that is associated with capital; when a company is seen to have low risk due to its transparency level then it would also mean that they get cheap means of finance because most investors will prefer them over the rest (Botosan & Plumlee, 2002). The other important benefit is corporate reputation and stakeholder trust. Such companies that engage in the communication of financial information are usually perceived to act responsibly and have good management leading to positive interaction with their stakeholders e. G. Customers, investors or even government regulatory authorities (Cormier & Magnan, 2003). In addition, it can be argued that voluntary disclosure may help reduce risk given that organizations can address potential issues before they become serious problems; hence, there would be less uncertainty in financial reports of such disclosing entities (Hassan, Romilly, & Al-Shammari, 2009).

3. Challenges and Limitations of Voluntary Disclosure

On the other hand, despite all these advantages, voluntary disclosure has its own drawbacks too. Competitive disadvantage is a major worry since too much openness may let sensitive information that is important for the competition out to the rivals (Verrecchia, 2001; Almansoori et. al. ,2021). First of all, it is important to note that voluntary disclosure can lead to some negative implications on companies. These may include high costs with regards to; gathering of information, maintaining records, as well as following the required procedures of disclosure (Graham, Harvey, & Rajgopal, 2005). It could also be very challenging for organizations to adhere to uniform VDP guidelines since they may exist with other entities operating within the same sector (Hassan et al., 2009). Additionally, voluntary disclosures may be unreliable because managers usually have the liberty to decide on them, thus posing questions on their trustworthiness (Merkl-Davies & Brennan, 2007).

4. Emerging Trends in Voluntary Disclosure

Recent studies indicate emerging changes in voluntary disclosure due to advancement in technology and changing stakeholder expectations. The research paper will major on the following emerging issues; At first there is emergence of digital reporting and fintech solutions which are facilitating continuous, dynamic and real time disclosures (Xiao, Yang, & Chow, 2004). With time, there has been increasing focus towards sustainability as well as corporate social responsibility

(CSR) thus broadening what is disclosed beyond pure finances to cover other areas like environment, society and governance factors. The other trend that has been emerging involves incorporation of big data and artificial intelligence in the VDP systems. This has led to the development of sophisticated tools such as advanced analytics, as well as AI driven reporting tools that would enable entities automate most of their disclosures, ensure that they are accurate, and customize them according to the information requirements of investors and other parties concerned (Leuz & Wysocki, 2008). Also, there have been increased changes in the law regarding how companies should make their reports known to the public; some countries now have stricter rules than before to ensure that clients' money is safe (Al-Janadi, Rahman, & Omar, 2013).

The literature calls for more studies on voluntary disclosure within the context of industries as it enhances openness, trust from investing public and proper management. Even though there are many determinants that affect the way information is disclosed, an organization should weigh both advantages and disadvantages that come with competitive risks and reporting expenses when it comes to voluntary disclosure. Lastly, researchers should study how emerging technologies, new laws and regulations, and ESG issues impact voluntary disclosure among industries as VDP continues to change over time.

Voluntary disclosure and its effects on financial report, corporate social responsibility as well as corporate value.

Today, voluntary disclosure is part and parcel of corporate integrity and responsibility which is highly applicable in sectors with high degree of information asymmetry. Previous research has investigated how voluntary information affects overall financial performance, including the financial perspective, financial report on quality, social responsibility in business, and the value of companies. In order to comprehend the interrelationships among these variables, this paper reviews the important findings of the previous studies on the subject.

1. Voluntary Disclosure and Financial Performance

There are many literature materials that have tried to explore the potential relationship between voluntary disclosure and financial performance. Theories like agency and signalling theories propose that companies which practice good voluntary disclosure would experience improved financial performance since they would attract investors who are confident with investment in such companies and charge low interest rates (Jensen & Meckling, 1976; Spence, 1973). Available empirical literature confirms this view as it shows that companies which disclose more information have higher profitability ratios, ROAs, and ROEs (Botosan, 1997; Healy & Palepu, 2001). A case in point is a study by Botosan (1997) which revealed that companies with high level of voluntary information had lower cost of equity capital. In the same way, Lang and Lundholm (1996) proved that there was a positive relationship between disclosure level and market performance of the entity. On top of that, the industrial sector companies that practice regular voluntary disclosure experience a stable financial position, because they attract long term investment, which help them to remain financially strong (Barako, Hancock, & Izan, 2006).

2. Voluntary Disclosure and the Quality of Financial Reports

Voluntary disclosure has been found to significantly enhance the quality of financial reports by mitigating information asymmetry and promoting transparency. Companies that disclose non-mandated financial information voluntarily are seen to have better earnings quality, financial statement credibility, and investor confidence (Cormier & Magnan, 2003). Research studies confirm that there is positive relationship between voluntary disclosure and quality of financial reports. For instance, Hassan, Romilly, and Al-Shammari (2009) established that increased voluntary information strengthens public trust on accounts, hence increasing their relevance to investors and other interested users. In the same way, it was shown by Chen, Chen, and Wei in 2011 that companies which have effective corporate governance systems would disclose more information which consequently enhances the quality of financial reports.

3. Voluntary Disclosure and Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) is now a crucial element of corporate strategy, and voluntary disclosure greatly enhances the transparency of CSR.

According to Michelon, Pilonato, and Ricceri (2015), firms which reveal their CSR activities, impact on environment and society, gain the trust of the stakeholders and have good reputation. Past research indicates a symbiotic relationship between voluntary disclosure and CSR performance. It has been proven through research that companies stand to gain a lot by revealing their social responsibilities in terms of being able to get social investors that will give them an edge over their rivals (Freeman, 1984). On top of that, providing extensive information regarding their sustainability measures proves increased responsibility on the part of organizations as postulated under legitimacy theory (Suchman, 1995). This openness is important for a positive relationship with stakeholders and a good corporate reputation.

4. Voluntary Disclosure and Corporate Value.

Voluntary disclosure plays a crucial role in determining corporate value as it can affect the way investors perceive the company, the market price of its shares, and its financial position. Stakeholder theory argues that companies which provide high levels of voluntary information are seen through the market as transparent and accountable hence they have high confidence on such firms that reflect on increased valuation. There are many empirical studies that support this claim. Notably, Botosan and Plumlee (2002) established a positive relationship between voluntary disclosure and corporate value through improved pricing efficiency and lower earnings volatility. In a related vein, Verrecchia (2001) contended that when companies provide voluntary information, it serves to reduce uncertainty among investors and, consequently, increase the value of the firm. In addition, organizations that make known their long-term financial objectives and strategies are more likely to receive investment from institutional investors who play a key role in creating sustainable value for companies over the long term (Leuz & Wysocki, 2008).

Literature within various industries underlines the importance of voluntary disclosure to financial performance, accounting standard quality, corporate social responsibility transparency and overall market value of a company. Studies continue to show that companies gain immensely from voluntary information through increased investors' confidence, low information gaps as well as long term survival among others although there may be some trade-offs to it in terms of competition and cost of reporting. The future studies should investigate how technological progress, changes in regulations, as well as digital reporting standards affect voluntary disclosure practices in organizations globally.

RESULTS AND CONCLUSION

It can be concluded from this review that voluntary disclosure is very important when it comes to making decisions concerning the finances and strategies of a business. It is common for industrial establishments that take part in voluntary disclosure to have an easier time with investors, pay lower interest rates for their loans, and see their securities prices reflect available information to a greater extent. Voluntary disclosure is adopted by financially strong entities in revealing their strength to investors while open companies usually disclose a lot. Financial reports become more reliable with voluntary disclosures that again promote transparency and responsibility within organizations. Voluntary disclosure also promotes corporate social responsibility through alignment of business activities with public/societal and environmental/sustainability related expectations and objectives. Be that as it may, there are also some disadvantages of voluntary disclosure such as; risk of loss of competitiveness, very expensive compliance, and non-comparability due to absence or non-adherence to unified formats. Organizations need to weigh the pros and cons of being transparent because there are strategic risks related to too much information revealed. In summary, voluntary disclosure forms part and parcel of corporate reporting among industries. Prospective voluntary disclosure practices are likely to be influenced by changing regulations, advancement in financial reporting technology, and growing importance of sustainability. It is recommended that companies incorporate digital reporting tools, link voluntary disclosures to sustainability frameworks, and follow certain guidelines for effective communication of transparent information with a view to reducing possible risks. The future research should address the impact of artificial intelligence, blockchain, as well as changing regulations on improving voluntary disclosure efficacy in industries.

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