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Some Aspects of Voluntary Disclosure

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SOME ASPECTS OF VOLUNTARY DISCLOSURE

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1. Introduction

This paper aims to draw attention to some aspects of voluntary disclosure that current research studies in this area generally do not take into account.

Current disclosure research tends to analyze and explain differences in aggregate voluntary disclosure among firms within a single period by relating 'overall' measures of disclosure to certain firm characteristics as size. It will be argued that studies of this type can usefully be complemented by studies that consider more extensively:

- differences in disclosure behaviour among items of disclosure rather than among firms;
- developments in disclosure over longer periods of time;
- the possible existence of "grey" areas between mandatory and voluntary disclosure;
- the existence of firm- or country specific factors influencing disclosure.

Taking these issues into account may extend or modify some of the conclusions reached in earlier studies.

It can readily be seen that this requires a certain departure from the methods characterized by aggregation and the use of statistical models common in current disclosure research. Case studies taking into account factors that are less easily quantifiable and/or specific to the case situation are called for. The fact that results from such studies are less easy to generalize makes it necessary to stress that they are intended as complementary to more formal studies, adding some colour to their results or introducing some caution in the making of assumptions in those studies.

In this paper a case study along the lines sketched above will be presented on the gradual (voluntary) introduction of sales disclosure in the Netherlands over the period of 1945-1970. Some reasons for the choice of this item and this (historical) period will be given below. The study is intended as an initial exploration of the influence of the aspects mentioned.

This paper is organized as follows: a short description of the method and results of current disclosure research is given, followed by an evaluation in which the desirability of a slightly different emphasis is made clear.

This different emphasis is then provided by the case study which involves a short description of the reporting environment during the period concerned, a description of the data used and an explanation of their provenance, a first analysis of the data in which, in harmony with earlier studies, a certain correlation with size is established, and, subsequently, a modification of these findings taking into account the points mentioned above.

2. Current disclosure research

In the literature on (voluntary) disclosure, a family of research can be distinguished, starting with the work of Cerf (1961) and continuing to the present day.¹

The common feature of this approach is the use of "disclosure indices". Typically, a research study would consider the financial statements of a number of companies for one year, crediting firms for each of a series of items that it discloses. The scores for all the items are summed, in which process weights may or may not be attached to the scores on the various items.

Subsequently, the resulting indices are related to firm characteristics as size, industry and listing status, usually by multiple regression analysis.

¹ Studies in this fashion include: Cerf (1961), Singhvi and Desai (1971), Choi (1973), Buzby (1974, 1975), Barrett (1977), Chow and Wong (1987), Cooke (1989) and Waagenhofer (1990).

The results of these studies support the hypothesis that size, and to a lesser extent industry, are correlated with voluntary disclosure. It is acknowledged that size is not an explanation of disclosure in its own right, but rather an indication of the strength of forces stimulating voluntary disclosure. These forces are usually presented in a somewhat abstract way, for instance by assuming the existence of shareholder-debtholder-management contracting (mentioned by Leftwich, Watts and Zimmerman (1981), applied by Chow and Wong-Boren (1987)), without relating such hypotheses to the institutional setting of the situation being studied.

Reasons for considering complementary research methods can be divided into technical problems associated with the index method and limitations in the scope of the method, either intrinsically linked to it or caused by the choice of the areas where it has been employed.

Technical considerations include:

1. the question of whether or not to use weighted scores, and the determination of weights when used.

Weights are seen as expressions of the value users attach subjectively to items of information. If one wants to classify firms as being more or less informative in their financial reporting, it would seem that some valuation of the different items is necessary. However, the assumption that value is derived from subjective judgments by users makes this more or less impossible. Survey techniques have been used (Buzby 1974, Chow and Wong 1987) though not with undisputed success (See Benjamin and Stanga 1977, Dhaliwal 1980). More recent research has tended to drop the use of weights (Cooke 1989, Wagenhofer 1990). This can be justified on either of two grounds only:

- * firms are consistent in their disclosure behaviour. That is, firms that disclose 'valuable' items better than others are likely to disclose less 'valuable' items better as well.

- * a sufficient number of items is included in the index to average out inconsistent behaviour. This brings the risk that the analysis is dominated by large numbers of less material items.

2. the fact that non-disclosure of an item might be caused by the fact that the particular item is not relevant to the firm being studied. As the relevance of an item can often only be judged when information about it is disclosed, this presents a considerable problem.

It can be handled by deliberately ignoring it (Singhvi and Desai 1971), by using only items that are relevant to all firms (Barrett 1977), or to use more or less subjective judgment to decide what is applicable and what not (Cooke 1989). Again, using large numbers of items might help to reduce the effect of wrong scoring, but again at the possible cost of relevance and clarity of the results.

These two technical problems associated with the aggregate method might warrant some caution in its use. This paper, though, will not present any suggestions for solving the second problem. In addition to these technical considerations, there are reasons of scope:

1. Dynamic aspects of voluntary disclosure.

Disclosure research tends to present voluntary disclosure as a choice firms make from a given set of items that are not presently required by some form of regulation. Changes in the set of items, or changes in the way choices are made from this set are generally not part of the research question. Questions that might be considered include those concerning:

- the reasons why items are at some point in time seen as possible elements of financial statements;
- the forces or influences underlying voluntary disclosure: do they change over time, and are they sufficient to complete the dissemination of disclosure without the support of regulation ?

Extending disclosure research over longer periods of time has been advocated by some authors (Dhaliwal 1980, Wagenhofer 1990). Technically, it would increase the difficulties of the index method due to changing user preferences over time. The mechanics for 'dynamic' research have to be worked out as yet.

2. Differences in disclosure behaviour among items.

As described above, the fact that the nature of items might cause firms to act differently where different items are concerned is not regularly taken into account. When it is taken into account, it is done in such a way as to eliminate the effect of individual items on the final results, by using weights.

A related question concerns the type of items that are studied. In most current reporting environments, financial reporting is regulated to a considerable extent. When voluntary reporting is studied in such an environment, only items that are relatively marginal can properly be taken into account. The results from such studies might be influenced by the fact that only such items are dealt with. An indication of the effect of this influence can be obtained by studying data from a less regulated period that is close enough to the present day to give some confidence in the applicability of the conclusions to current reporting.

3. Less than voluntary reporting.

The use of disclosure indices usually involves a clear distinction between what is mandatory and what is not. In practice, such a distinction cannot always be made. Firms may feel compelled to publish information that is not formally enforceable. An example can be found in the guidelines issued by the Dutch private sector body of the council for financial reporting (Raad voor de Jaarverslaggeving).

Although it is conceivable that a formal analysis be carried out involving several shades of compulsion, a more qualitative analysis seems called for in such cases.

4. Miscellaneous factors.

Voluntary reporting may finally be encouraged by a host of factors that are hard or impossible to quantify or generalize and/or specific to firms or countries. These include personal preferences of company managements and attempts to forestall further regulation (an illustration is provided in Shank 1972). One could argue that it is the specific task of aggregate analysis to suppress the influence of such incidental factors, but this does not preclude the possibility of supplementing aggregate and quantitative research by more qualitative studies.

In the remainder of this paper, an attempt is made to illustrate the points made above. A case study will be presented in which, first, the validity of the generally accepted hypothesis that disclosure is related to size will be established for the specific circumstances of the case.

Subsequently, this general conclusion will be modified by showing that, according to this case:

- the influence of size can differ among items;
- factors underlying the relation of size and disclosure can change over time;
- some factors influencing disclosure do not operate according to size (or, for that matter, according to other factors as industry or listing status)

3. Disclosure of sales in the Netherlands 1950-1970

3.1. Introduction

The particular period studied in this paper was not chosen at random. Studying this period for other reasons made it clear that it might serve as a suitable object of study from the point of view of voluntary disclosure. This suitability is derived from the fact that this period coupled the virtual absence of legal regulation with a quite sophisticated practice of financial reporting (see for instance Da Costa et.al. 1978). And moreover, the period seems not to be too far removed from the present as to give any conclusions merely a historical value.

The legal regulation of financial reporting by the Dutch commercial code (*Wetboek van Koophandel*) demanded since 1929 that listed companies and a limited number of other companies publish a balance sheet and an income statement. In the balance sheet a small number of items had to be presented separately, but the contents of the income statement were not regulated. Before the war, this resulted in a universal practice of publishing income statements, or rather, profit and loss accounts, which took the balance of the trading account as starting point. From this interest, depreciation and taxes, not always separately disclosed, were subtracted to arrive at net income (Munnik 1931, Koppenberg 1935).

This type of financial reporting was not particular to the Netherlands. German legislation on financial reporting was, as far as the income statement was concerned, based on the "Nettoprinzip" until 1959. German companies seem not to have exceeded this legal demand to a great extent, as German authors deplore the lack of openness on the part of German companies, especially when compared with American companies (for instance: Farr 1955).

The UK Companies Act of 1948 did not require disclosure of sales. Such disclosure was first required by law in 1967. As far as practice is concerned, a slight indication can be obtained by the fact that in 1957 an income statement based on "operating income" was held up as an example to students of auditing (de Paula 1957).

In these countries, one can, therefore, observe a movement of transition, requiring a certain period of time. This movement starts at a point at which sales disclosure is generally seen as detrimental to the interests of the companies involved. Then, gradually, such disclosure is called for by an increasing number of authors in the press and relevant journals, and a growing number of companies discloses voluntarily. Finally, such disclosure can be made mandatory by law or accounting standards.

One can observe such transitions for any accounting phenomenon, but in the case of sales, the interests involved would make for a fairly protracted process.

In the United States, this transition took place before WWII. Barr (1940) describes progress on the issue by comparing the almost universally required sales disclosure in financial statements files with the SEC with the tedious extension of sales disclosure on a voluntary basis ten years earlier. The inference is that the SEC has had a marked influence of sales disclosure.

Benston (1969) has shown that the proportion of sales-disclosing companies rose from 55 to 62 percent of all companies listed on the NYSE over the period 1926-1934. These figures (together with other disclosure data) are seen to indicate a modest contribution of the SEC, as the amount of disclosure prior to the passage of the Securities Acts was already "considerable".

The United States could therefore be held up as an example to German (Farr, 1955) and Dutch companies, not only in general, but also specifically in the case of sales disclosure. (Spinoza Catella (1948), Brands (1953), Sanders (1963)). Calls for emulation of American regulation, with explicit reference to sales, were made as well (Brouwer, 1962).

In the Netherlands, revision of the 1929 company law provisions, including those on financial reporting, was a topic of almost continuous debate from the later fifties until the final effectuation of change with the Act on Annual Accounts ("*Wet op de Jaarrekening*") of 1970. In 1960, calls for reform of company law resulted in the installation of an official commission (referred to as the Verdam commission after its chairman). From this moment on, and especially after publication of its report in early 1965, revision of the law, including extension of the regulation of financial reporting, became a near certainty.

During this period, the idea that financial reporting might be improved by voluntary action on the part of firms rather than by regulation by law found widespread acceptance. Experience of actual developments gave many contemporaries, especially but not exclusively from the business community, the confidence to state that a system resting mainly on voluntary improvements was superior to one that forced firms in a straitjacket of detailed rules that would stifle further innovation.²

All this kept the issue of financial reporting alive - at least in the limited sense in which this word must be understood in the context of financial reporting - in the minds of the press, the public and the company managements. It would seem that decisions on financial reporting by managements would be made with some care, given the degree of public attention to financial reporting.

During this period, one can therefore observe unregulated disclosure behaviour on quite crucial issues, like the disclosure of the sales figure. Sales disclosure remained a somewhat controversial issue throughout the period as companies were pressed on the one hand to disclose sales, but were reluctant to do so for competitive reasons.

As late as 1969, when the leading financial paper (*Het Financieele Dagblad*) issued for the first time its annual survey of sales figures of large and middle-sized companies, many of the figures still had to be estimated by the editorial staff as the firms themselves were unwilling to provide the information.

The difference in informative content between financial statements that do and do not show sales can easily be imagined. In a more formal analysis, Chow (1984) has attempted to show that the introduction of mandatory sales disclosure in the United States has caused a certain wealth transfer away from shareholders of companies that did not voluntarily disclose sales before this was required. This seems to imply that the apprehensions on the part of company managements were not altogether unfounded.

In order to provide some perspective on the sales issue, its development will be contrasted by the developments in disclosure of a more or less uncontroversial item: comparative figures. The idea of showing last years figures gained acceptance roughly at the same time as the first sales disclosures (see: de Jong, 1956). Comparative figures are not nearly as sensitive information as is the sales figure. Except in the case of changes in the accounting principles used, they are scarcely more than a courtesy to the reader. Their inclusion in this study is intended to give an impression of the range of differences in disclosure behaviour among items.

However, even in this case some reluctance to provide the information existed. Calls for showing comparative figures have been made since the early years of the century (eg Bleyswijk-Sombeek, 1908) in the Netherlands without apparent results up to the period under study. Comparative figures are included as fairly significant elements of voluntary disclosure in the study of Singhvi (1977). In a study by Firth (1980), a survey of users of financial statements indicated that comparative figures were rated as moderately important.

² Witnesses to this idea include: Philips (1962), Burgert (1965), Nordemann (1967), Louwers (1970), van Bruinessen (1975), and, for a German audience: Geertman (1955)

3.2. actual disclosure development - sample selection and data

The actual development of sales disclosure is charted for a selection of 121 companies. This selection is the result of a stratified sample from the companies with shares listed on the Amsterdam Exchange in 1960.

From the sample, two types of company were excluded. First, financial companies (banking, insurance and building societies) were not included because of the different nature of their revenues. Second, a number of companies, set up to engage in activities in the former Dutch East Indies, had ceased to have any activity as a result of the nationalisations accompanying independence. These were excluded as well, leaving a total of 383 companies.

These were grouped in four size categories. Size in this regard was defined as total reported asset value (consolidated if available) in the 1960 financial statements. The purpose of this grouping was to obtain, on the one hand, a sufficiently wide sample which could give an impression of overall developments, while allowing at the same time the formation of a more or less complete picture for the larger companies. From the first category (largest companies) all companies were included in the sample, from the other three random samples were drawn. Companies whose financial statements could not be obtained were omitted from the final sample. The contents of the four size categories, the samples drawn from them and the numbers finally obtained can be summarized as follows:

category:	size:	sample size:	sample result:
I	50	50	48
II	71	30	23
III	71	30	25
IV	191	30	25
	<u>383</u>	<u>140</u>	<u>121</u>

For each of the firms selected, the financial year in which sales or comparative figures were first disclosed in the financial statements is noted. A firm is supposed to disclose sales if a sales figure for the firm as a whole is given anywhere in the financial statements or the directors' report. A complete income statement is not required.

The result is presented in the tables on p. 19-21, and in graph 2 on p. 18.

This approach has at least one drawback: asset size is a very imperfect size measure. During this period, some companies which should have published consolidated statements did not do so. Other companies made extensive use of secret reserves (valuing assets at one guilder et cetera) while still other companies valued their assets on the basis of replacement value. All this reduces comparability among companies and reduces the value of assets as an indication of size. Alternative measures are hard to find, however.

3.3. Initial analysis

3.3.1. Some technical considerations

On extending disclosure research over several periods, one is confronted with two phenomena that are absent from static research.

A. Changes in the number of companies

In the course of time, the number of companies that could be included in such a research project changes, as a result of mergers, dissolutions, and, restricting the argument to listed companies, new listings and buy-outs.

The picture of overall financial reporting practice is made up of a changing set of firms. If one works with a sample of companies rather than the whole population, it must be decided whether to follow a certain group of companies over a period of time, or to redefine the sample every period. The last approach would enable one to make pronouncements on the development of disclosure for, say, the largest companies.

In this paper, a fixed group of companies is chosen, because this enables one to trace the moments at which the decision to disclose an item is made. This group has been fixed somewhat arbitrarily on the basis of the 1960 size distribution, assuming that this represents a rough average.

For years between 1950 and 1960, these companies are included in the sample from the moment of their introduction, or from 1950, whichever is the later date.

For years between 1960 and 1970, companies are included as long as they were listed. An exception is made, though, for the case of mergers. A considerable number of mergers took place during the 1960's. If one would let all merged companies drop out of the sample, the results would to a certain extent be distorted, as these companies continued to be relevant for financial reporting.

Therefore a somewhat subjective division is made between mergers and take-overs, to the effect that the components of merged companies are kept track of separately, and both credited for disclosure of the new combination. Companies that are considered as taken over are removed from the sample.

The decision to label an amalgamation as 'merger' is taken on the basis of such criteria as the wording used in the announcement and the name of the new combination.

One could use a similar procedure for pre-1960 mergers. In this sample, only a few of the 1960 companies could be considered to be the result of a merger during the 1950's. These were ignored.³

The result is that the number of companies in the sample varies over time, and that there are small deviations at the end of the period between the true and assumed numbers of companies in the sample due to mergers (see graph 1, p. 18).

B. Changes in company characteristics

As the number of companies changes over time, so do their characteristics. Therefore, the most often used characteristics, size and industry, are not fixed.

In order to link company characteristics with disclosure behaviour, one would ideally measure characteristics at the moment of a change in such behaviour. This would, however, seem to rule out the possibility of aggregate analysis, as different items will usually be initially disclosed at different moments.

³ For instance: VMF was formed in 1955 as a merger of two companies. Of the two possible fictions, viewing VMF as a new introduction in 1955 was considered preferable to viewing the two components as separate companies up to 1970.

In the case of industry, using one fixed characterization for all items seems quite defensible, though, as changes of industry will be comparatively rare.

In the case of size, this cannot as easily be justified. Nevertheless, in this paper, out of practical considerations, a single size measure will be used.

Size

'Size' cannot be determined as easily as in the static case. Allowing for overall increases in absolute size requires that a measure of relative size, that is, simple rank order or share in total absolute size be used to ensure comparability over time.

In this paper, the 'size' of a company will be defined as the average of its rankings in the ordering according to total assets in both 1950 and 1970.

The remark on size made under 3.2. is applicable here as well.

Industry

Following earlier studies (eg Wagenhofer 1990), a relatively simple industry classification is used. Firms are classed in one of four categories: Trade (n = 24), Industrial activities (n = 71), Transport (n = 15) and Miscellaneous (n = 11). This classification is assumed to be valid for the entire period.

C. Scoring

The disclosure performance on an item is initially taken to be the financial year in which a company first discloses that item. In order to ensure comparability among items, simple rank orders based on these years are used. As the ordering is based on the ending of the financial years, a financial year ending april 30th 1953 is ranked before a financial year ending december 31st 1953.

3.3.2. Findings

Some correlation between size and disclosure of both items can be assumed.⁴ This corresponds to the results of earlier studies.

For combinations of industries, the hypothesis is tested that results for the two industries are drawn from populations with different means with regard to sales disclosure. Except for the category 'Miscellaneous', no significant deviations are found.⁵

From the fact that the 'miscellaneous' firms seem to have disclosed earlier than others, no simple conclusions can be drawn, as the category is indeed heterogeneous. Individual explanations seem to be called for. For instance, the Nederlandsche Maatschappij voor de Walvischvaart, a whaling company included in this group, sold a large part of its output to the govern-

⁴ Spearman's coefficients:		Significance levels (2-tailed)
sales/size	.43	<.001
comparative figures/size	.27	.002

⁵ The normalized T's of Wilcoxon's test are:	1	2	3	4
1. Trade				
2. Industry	.51			
3. Transport	.00	.57		
4. Misc.	-1.84*	-1.72*	-1.32	

* significant at 10% (two-tailed)

ment at fixed prices. It would not face serious competitive pressures by disclosing its sales and profit margins.

As could be expected from the correlation with sales for the two items, there is also a certain correlation between disclosures of sales and comparative figures for each company.⁶ Given the fact that these two items suggested different disclosure behaviour a priori, this indicates that the degree of inconsistency (as discussed in paragraph 2) in disclosure behaviour is not too wide to prevent aggregation. More formal criteria to judge such inconsistency should, however, be developed before definite pronouncements are made.

In interpreting these results one has to take into account that they are based on a number of less than ideal measures as described earlier. Nevertheless, it seems fair to state that the general trends in the data are as indicated in this paragraph.

3.4. secondary analysis

As has been stated earlier, size is in itself only a proxy of forces affecting disclosure. An examination of the actual forces at work during the period is necessary to interpret the findings of the previous paragraph. The following factors can be considered:

3.4.1. Foreign listings

In studies involving firms outside the United States, disclosure behaviour is often related to the fact that firms may be listed on foreign exchanges, and therefore be subject to the requirements imposed by these exchanges (see Cooke 1989). Dutch authors, like Burgert (1965) have partly attributed voluntary improvements in financial reporting to the influence of US listing requirements. In the example being studied, only two firms had foreign listings at the time of their initial sales disclosures. Both AKU and Royal Dutch/ Shell Group took up listings on the New York Stock Exchange in 1954, which may explain their sales disclosures in 1952 and 1953. That the financial reporting of these companies was affected by this listing is shown by the fact that AKU issued the first Dutch quarterly statements in 1953. This was at the time explicitly linked to the New York listing.

3.4.2. Impending legislation

It can be argued that disclosure of sales after 1965, and especially after 1968 was not entirely voluntary. In January 1965 the committee charged with the reconsideration of company law issued its report⁷. The draft law on financial reporting included in the report was quite clear in demanding sales disclosure of all but the smallest companies. These could comply by disclosing index figures. By mentioning the example of Germany and the United States, fears of competitive pressures were discounted. Sales disclosure was thought to be demanded by the "minimal standards of accountability". The favourable reception of the draft made adoption of its essentials a very likely event. In 1968 a draft law was issued by the ministry which was for practical purposes (and in any case in the matter of sales) identical to the proposal of the committee.

The further dissemination of sales disclosure among companies after 1965 took place in a seemingly haphazard way. A test on rank-correlation in this section of the sample shows no significant relation with size.⁸

⁶ Pearson's coefficient on the correlation between the years of disclosure is .28. This can be assumed to be different from zero with confidence .01 (two-tailed).

⁷ Herziening van het Ondernemingsrecht, Rapport van de Commissie ingesteld bij beschikking van de Minister van Justitie van 8 april 1960, The Hague, 1965

⁸ For $n = 39$, Spearman's coefficient = -0.15

If one leaves out from the sample the two companies with foreign listings and those disclosing after 1965, the resulting firms show no significant correlation between size and disclosure order.⁹ This suggests that size is a useful criterion in separating those companies that were willing to disclose voluntarily (for whatever reason) and those that were ultimately not willing to disclose, and did so only when disclosure became inevitable as a result of legislation.

Within these groups, size is not a particularly relevant determinant of disclosure behaviour. This is readily acceptable for the later group: the impending legislation would have worked, at least for companies as included in this sample, independent of size.

For the first group, reasons for disclosure may have existed that operated independent of size.

3.4.3. Recommendations by the Dutch employers' associations

A factor that must be considered in any study of voluntary financial reporting during this period is the influence of Dutch employers' associations.

Somewhat surprisingly at first sight, Dutch employers' associations took a leading role in stimulating financial reporting. In 1955 and 1962, reports were issued by committees installed in collective action by the four associations of employers which described what an ideal financial statement looked like¹⁰. These reports were quite progressive (although the first more so than the second) and advocated disclosure that went considerably beyond the practice of many companies. This is seen by the favourable and almost surprised reactions by the financial press. The fact that such a progressive document was issued by employers was recognized as a singular event.

Both studies recommended sales disclosure in quite strong terms, and rejected the arguments against disclosure based on competitive pressures for most companies. The background of these studies was not a detached interest in extensive reporting for its own sake. The first report was a bold public relations attempt made to improve the standing of business in the public view and to create goodwill in the capital market.

The second report was aimed directly at influencing the conclusions of the recently installed Verdam commission charged with the revision of company law. It was assumed that organized business could prevent severe legislation by working voluntarily on improvements in financial reporting.

There have been no systematic studies of the effects of these reports. Most Dutch authors on the subject acknowledge their beneficial influence, but there is disagreement on the extent of the influence. This influence is assumed to have been gradual. An examination of yearly initial disclosures (graph 2, p 18) does not reveal any developments that could with any degree of confidence be attributed to the influence of the reports.

Given then that these reports did not lead to universal adaptation of sales disclosure, one would expect that companies that were represented on their drafting committees practised their own recommendations to a greater extent than the others. Ten companies of varying size from the sample were represented on one or both of the committees. Their disclosure scores on sales are indeed lower (ie: they disclosed earlier) than the median score of the entire sample.¹¹ One cannot infer more, though, than a somewhat greater inclination to disclose sales. On closer

⁹ $n = 33$, Spearman = 0.12

¹⁰ Het Jaarverslag, rapport van de Commissie Jaarverslaggeving van het Verbond van Nederlandsche Werkgevers, het Centraal Sociaal Werkgeversverbond, het Katholiek Verbond van Werkgeversvakverenigingen, het Verbond van Protestants-Christelijke Werkgevers in Nederland, The Hague, March 1955; and:

Verslaggeving verantwoording en voorlichting door de besturen van naamloze vennootschappen, issued by the Raad van Nederlandse Werkgeversverbonden, The Hague, October 1962.

¹¹ with a two-tailed sign-test, and a significance level of 2 %.

inspection, it appears that, of the nine companies serving on the first committee, two (Philips and Unilever, both multinationals) already disclosed sales before 1955, that 6 disclosed only after 1962 or not at all, and that only one (Hoogovens, 1960) disclosed for the first time between the two reports.

The overall higher score is therefore due to the high proportion of multinationals and to the fact that other companies serving on the first committee responded better than average to the report of the second.

Examples from the sample point both ways: Van Gelder & Zonen, a paper firm represented on the 1955 committee, made several changes in its 1955 report while referring explicitly to the 1955 report, but did not disclose sales.

This can be contrasted with the behaviour of Thomas & Drijver and Key & Kramer, companies not represented on the 1955 committee, but that did considerably extend the quality of their reports in 1955, including sales.

As far as the two items in this study are concerned, these reports cannot be said to have had any distinct influence on financial reporting. In the case of comparative figures, they came too late. In the case of sales, no concluding evidence is available. The best that can be said is that these reports seem to have given companies that were already inclined to do so an impulse to improve their reporting. This impulse was somewhat stronger, but definitely not irresistible, in the case of companies represented on the boards, and seems to have acted in a random way on other companies.

3.4.4. The Stock Exchange

The main private sector body in charge of securities trading during this period, the 'Vereeniging voor den Effectenhandel', declined to give hard rules on financial reporting. It required listed companies to publish financial statements, but did not prescribe their contents until some summary rules were given in 1983. The Vereeniging has been criticized for this attitude in the contemporary press. It cannot be said, though, that it was completely inactive. But it preferred to work through less formal channels in nudging companies towards more informative financial reporting.

In 1949 and 1951 it issued two releases¹² calling on its members, the stock brokers, to stimulate their clients towards fuller disclosure.

In the second of these releases, a strong call for comparative figures was made. Attributing the sudden outburst of comparative figures in 1951 (see graph p. 18) to this release seems the most reasonable explanation of this phenomenon. This can be seen as an example of a stimulant that is more or less specific to the few items covered in the release.

In 1954 an annual award for company financial reporting was announced by the financial daily 'Het Financieele Dagblad', the so-called Henry Sijthoff award. Its jury was until 1974 composed exclusively of representatives of the three associations of securities dealers that between them organized all securities trading. The stock exchange itself sees the award as a significant part of its effort in developing financial reporting. The norms used in awarding the prizes were first published in 1956. Sales disclosure was presented as being very desirable. Speeches at the occasion of the awarding of the prizes were frequently used by stock exchange leadership to express its views on financial reporting. In the speech at the occasion of the 1959 awards for example the importance of complete income statements was stressed¹³.

Although the perceived influence of the prize is not inconsiderable, its real impact is hard to assess. There is anecdotal evidence that companies have changed their reporting practices in order to win the award.

¹² 'Mededelingen van het Bestuur aan de Leden' nos 270 (15/1/1949) and 285 (15/10/1951). These appear to be the only releases of this kind issued during the period under study dealing with financial reporting

¹³ Het Financieele Dagblad, December 9th, 1960

In the matter of sales disclosure, one can find an indication (albeit a slight one) of the importance attached by the jury to sales disclosure in awarding its prize in looking at the number of companies included in the sample that have won the prize during the period under consideration while actually disclosing sales at that moment.

Of the 56 awards given for financial statements reporting on years between 1953 and 1970 (three or four each year), 31 were awarded to companies included in the sample. Of these 31 companies, 24 did disclose their sales at the time they received the award. The other 7 cases occurred before 1964.

From this one might infer that companies that did want to win the award would have at least to consider seriously (among other things) the disclosure of sales.

3.4.5 Industry and Intra-company links

The absence of a link between disclosure and industry is, in the light of other studies, mildly surprising (Coenenberg ca 1984). In this case, it can to a certain extent be ascribed to the rough classification used. But even if firms are clustered into more homogeneous groups, there is still no significant relation with sales disclosure.¹⁴

An alternative grouping is that according to intra-company links. Such links can be found in the form of cross-holdings, joint subsidiaries, often accompanied by multiple board memberships.

A first glance at the few capital associations between companies in the sample seems to indicate a possible relation with disclosure.

Two examples are:

The participation of Hoogovens (Steelmaking) in 51% of the shares of Demka (another steel firm). Both disclosed sales in 1960.

In the shipping sector, a group of five companies was closely interrelated by cross holdings. In 1970, they finally merged into one. In this year they also disclosed, simultaneously and in separate financial statements, their sales. Other shipping companies had preceded them in this since 1964.

A more systematic examination of such linkages can be made on the basis of multiple board memberships. As in other countries, dutch executive and non-executive directors¹⁵ often sat at the boards of several companies at the same time. Some of these multiple memberships were related to cross-holdings.

If one considers only the instances from the sample in which two companies shared two or more members in their executive and supervisory boards in 1960, a group of 41 links results.

The sales disclosures of these linked companies show a significant correlation.¹⁶ Naturally, this result has to be interpreted with some care, as the situation of 1960 is not entirely indicative of the situation throughout the period.

One does not necessarily have to suppose an active involvement of non-executive directors in drafting financial statements in order to account for such a link. But one would expect the composition of the Supervisory board to reflect to a certain extent the outlook of management in such broad matters as "openness". And in an important matter as sales disclosure, company behaviour can apparently to a limited extent be estimated from the composition of the combined boards.

¹⁴ Shipping (14 companies), chemicals (13 companies), textiles (9 companies), machinery (11 companies) do not deviate significantly from the population mean according to a sign-test at 1%.

¹⁵ Dutch companies had (and still have) an executive board ("bestuur") and a supervisory board ("raad van commissarissen"). The members of the latter board are roughly equivalent to american and english non-executive directors

¹⁶ Pearson Coefficient of .48

An examination of some of these linkages show that they cross industry lines to a considerable extent. Hoogovens (Steelmaking) for instance, was at the centre of a rather complex network of steelmakers, -users and -traders. This could, to a certain extent, explain the lack of significance of industry as an indicator of disclosure. Many firms were apparently more focused on their trade relations than on their competitors.

The degree to which such multiple memberships occurred in the Netherlands seems not to have differed substantially from that in the United States, according to the contemporary study by Vinke (1961). However, US studies in which this characteristic is taken into account are not known to the author.

3.4.6. Individual characteristics.

In the case of a few companies, one can attribute improvements in disclosure to 'personal' factors. Such factors would seem to be the final resort in any explanation of corporate behaviour, but they are seldom properly documented.

In the case of Philips, a multinational electronics firm, corporate pride and a genuine desire for better reporting for its own sake seem to have played a definite role, as it was under no obligation to improve its reporting as a result of foreign listing. At the time that other multinationals, Royal Dutch/Shell and AKU started disclosing sales, presumably in connection with their New York listing, Philips was only traded in the over-the-counter market. During the early fifties, financial reporting was in the hands of A. Goudekot, chief of the internal audit department. He has written quite extensively both in Dutch and English on financial reporting issues, and is known as an advocate of replacement value. He was one of the leading figures on the 1955 employers' committee. Philips' president, mr P.F.S. Otten was firmly behind him on more extensive disclosure as witnessed by a speech held at the 1954 annual meeting of shareholders¹⁷.

The other multinational that published extensive financial reports without any apparent obligation to do so was Unilever. This company displayed a progressive attitude in financial reporting by, for example, disclosing sales as early as 1945, and providing breakdowns of sales according to product line and geographical areas since 1945 and 1947 respectively. Its chairman, dr P. Rijkens, took himself an interest in accounting matters as witnessed by his biography and the issues discussed in his speeches to the annual meetings of shareholders. He was therefore a natural and undisputed choice as chairman of the 1955 Employers' committee in which he actively participated.

In a 1960 newspaper article, he gave some of his views on the work of the newly established commission charged with revision of company law. Among other proposals, he advised to require sales disclosure of all companies for which 'sales' was a relevant measure of activity.¹⁸

¹⁷ Het beleid van Philips ten aanzien van de voorlichting van aandeelhouders, published in as a brochure by Philips Gloeilampenfabrieken, Eindhoven, 1954.

¹⁸ P. Rijkens, 'Publieke verantwoording van de naamloze vennootschap', in: Algemeen Handelsblad, 16 november 1960

3.5. Summary of case study

From the above it appears that while firms were formally free in their disclosure decisions, a number of factors may have prompted them towards fuller disclosure.

This resulted in a pattern in which, in the early fifties, a relatively small number of multinational firms started to disclose sales, some of them in relation to foreign listings. Firms that followed them during the period preceding the first draft of the 1970 law in 1965 may have done so because of a variety of reasons. These reasons can include being represented at one of the two employers' committees, the Henri Sijthoff award and the example of associated firms. A considerable part of observed disclosure must apparently be explained by imponderable factors as management attitudes.

That these forces had mainly an effect on the largest companies as attested by the correlation of disclosure and size was probably the result of a doctrine that gained widespread acceptance at the time. It was assumed that small or single-product companies would be seriously damaged in competition by revealing their sales figure. The 1955 and 1962 employers' reports and the Henry Sijthoff norms had an escape clause granting such companies the privilege to abstain from sales disclosure if this would seriously damage their interests. None of these specified, however, what was to be understood under 'serious damage', so in practice the waiver was assumed to apply to small companies. This would give all but the very large multinationals at least the possibility of defending non-disclosure in their shareholders' meetings by pointing to possible damage done by disclosure.

The 1965 and 1968 drafts did not specify the criteria that had to be met in order to refrain from disclosing sales. But the official commentary on the law made it quite clear that this exemption would apply only to truly small companies. From this moment on, size became irrelevant for most of the companies surveyed.

Although disclosure of comparative figures can be related to size as well, the conclusion that both sales disclosure and disclosure of comparative figures are related to size has a very limited meaning. In the two cases, the factors underlying the results were quite different. The issue of comparative figures was never particularly controversial, and companies needed only a little prompting (apparently from the stock exchange) to adopt it universally. In subsequent recommendations there is understandably no exception for smaller companies. This shows at any rate that companies were aware of the issue of improving financial reporting, and that they could take swift action if they saw sufficient reason for doing so.

Such reasons were for a number of companies not available as far as sales are concerned up until the moment that the draft law was revealed. An example of the divergence in reporting practice within one company is given by Heemaf, a firm dealing in electronic machinery. This company was among the very first to disclose comparative figures (in 1937), but it waited until 1969 to disclose sales.

Concerning the question of voluntary improvements versus regulation by law that so occupied contemporaries, it can be remarked that the answer appears to be item-specific.

In the case of comparative figures, the companies themselves, probably aided by the Stock Exchange, were quite capable of reaching an adequate level reporting at an early stage. The rather extensive debate in parliament on the inclusion of a paragraph calling for comparative figures at the passage of the 1970 law seems superfluous in this light.

On the other hand, the fact that a considerable number of companies, among which quite large ones, were not disclosing sales in 1965 (more than twenty years after the initial disclosure recorded by this study) might cause some impatience with the pace of voluntary progress, or even doubts about its final effectiveness.

4. General conclusions

Although it is a precarious undertaking to generalize from a single instance, some implications for disclosure research can be inferred from this case.

More formal conclusions as arrived at in the current research literature, such as a positive relation between disclosure and size can probably be maintained in a multi-year context, provided that the conclusion is framed as implying that large companies disclose items earlier than smaller.

It should be realized, though, that such conclusions have only limited meaning, as influences underlying such behaviour may change over time and have different impacts on different items. Of course, aggregation could smooth out inconsistencies and individual traits and should do so as it is meant to bring out what is constant and general. But it seems that studies specifically directed at bringing to light the possible extent of diversity covered by averages are at least as necessary as aggregate studies in understanding the process of voluntary development in financial reporting.

A task for future research should be the development of proper criteria which can be used in measuring the degree of inconsistency in specific cases to determine the applicability of aggregate measures of disclosure, or, on the other hand, to develop methods for incorporating such inconsistencies by weights on a more solid basis than user surveys.

If one assumes that the importance of an item is to a certain extent inversely related to the willingness on the part of management to disclose such an item, weights could be derived from the variance and the skewedness of the introduction curve, that is, the function representing the yearly number of initial disclosures.

It can also be concluded that some care should be taken in determining the point in time at which a single-period study is undertaken. Forces affecting disclosure may change virtually overnight, especially in the case of the issuance of non-mandatory but authoritative pronouncements. Once a period has been chosen, factors influencing disclosure may be found before as well as after that period, as in the case of impending legislation.

In single-period studies dealing with a small number of items, the effects of choice of period can be considerable as changes in disclosure practice can be completed within a short period.

Although single-period studies could thus benefit from findings of multi-period studies serving as pilots, the further possible uses of single-period studies seem to be limited. Repeated research studies have come up with more or less identical conclusions. Extension of aggregate studies over a number of periods is difficult, however. Changes in firm characteristics that affect disclosure behaviour on different items differently and changes in the relative value attached to items could probably be handled, but at the cost of realism or significance of the results. In this study, a number of simplifying assumptions had to be made to accommodate the effects of mergers and changes in size. This sets a limit to the precision to be used in aggregate research.

The aggregate study aiming for generally applicable conclusions seems to have served its purpose in indicating the broad lines along which more detailed studies can be undertaken to detect the specific factors and deviations that mark individual cases. Such studies could be justified simply by the desire to understand the one's own environment in more detail than is possible by general characterizations, but also by the more general purpose of understanding the extent of variation covered by such general conclusions.

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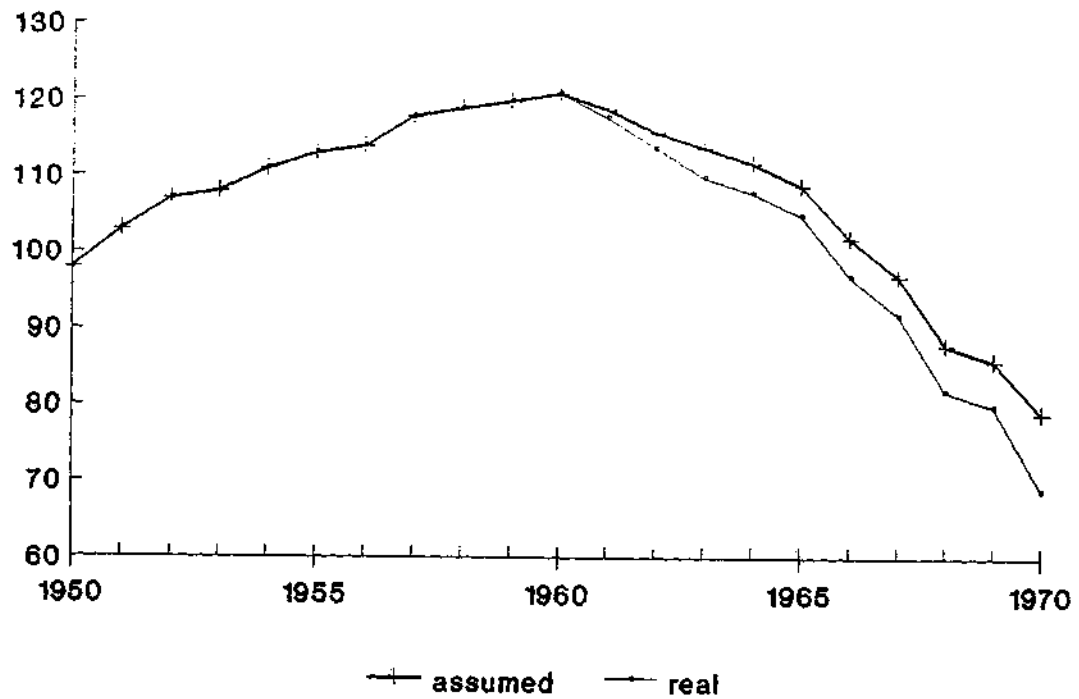
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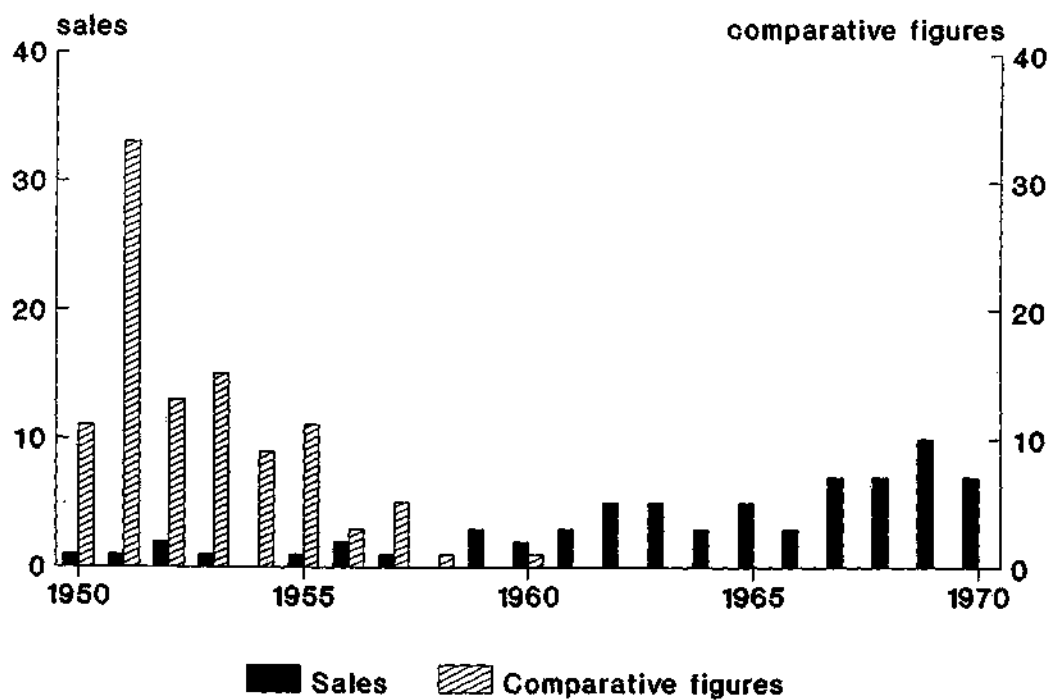
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sample size



initial disclosures



new listings not included (n = 109)

Appendix Disclosure data

Table 1. Sales

<u>Company</u>	<u>Year of Initial Sales Disclosure</u>
Unilever	1945
KLM	1946
Nederlandsche Maatschappij voor de Walvischvaart	1946,5
Philips' Gloeilampenfabrieken	1951
Kon Nederlandsche Maatschappij voor Havenwerken	1952
Koninklijke Petroleum Maatschappij	1952
AKU	1953
Key & Kramer	1955
Thomassen & Drijver Blikemballagefabrieken	1955
J.P. Wijers' Industrie- & Handelonderneming	1956,5
Braat Bouwstoffen	1959
Hollandsche Beton Maatschappij	1959
Overzeesche Gas- en Electriciteits Maatschappij	1959
Cindu	1960
Koninklijke Demka Staalfabrieken	1960
Koninklijke Nederlandsche Hoogovens en Staalfabrieken	1960
P.F. van Vlissingen & Co's Katoenfabrieken	1960
Aannemingmaatschappij "de Kondor"	1961
Machinefabriek Du Croo & Brauns	1961,5
Heineken's Bierbrouwerij Maatschappij	1961,5
Koninklijke Zwavelzuurfabrieken v/h Ketjen	1962
Koninklijke Nederlandsche Zoutindustrie	1962
de Erven de Weduwe J. van Nelle	1962
Intervam	1962
Koninklijke Zwanenberg-Organon	1962
Albert Heyn	1963
G.H. Bührmann's Papiergroothandel	1963
Koninklijke Fabrieken Diepenbrock & Reigers	1963
Lettergieterij "Amsterdam" v/h N.Tetterode	1963
Thomson's Havenbedrijf	1963
Internationale Crediet- & Handelsvereniging "Rotterdam"	1964
van der Heem	1964
Vereenigde Nederlandsche Scheepvaartmaatschappij	1964
Blaauwhoed	1965
Blydenstein & Co	1965
"Lijemp" Leeuwarder Ijs- en Melkproductenfabrieken	1965
Koninklijke Nederlandsche Gist- en Spiritusfabriek	1965
Koninklijke Textielabrieken Nijverdal-Ten Cate	1965
Amsterdamsche Droogdok Maatschappij	1966
Koninklijke Nederlandsche Stoomboot-Maatschappij	1966
C. van der Giessen & Zonen's Scheepswerven	1966
Furness' Scheepvaart & Agentuur Maatschappij	1967
Koninklijke Nederlandsche Papierfabriek	1967
Meelfabrieken der Nederlandsche Bakkerij	1967
Vereenigde Touwfabrieken	1967
Wessanen's Koninklijke Fabrieken	1967
Centrale Suiker Maatschappij	1967,5
Vulcaansoort	1967,5
Koninklijke Maatschappij "De Schelde"	1968
Geveke & Co's Technisch Bureau	1968
Koninklijke Nederlandsche Grofsmederij	1968
Hagemeyer & Co's Handelmaatschappij	1968
Betonfabriek "de Meteor"	1968
R.S. Stokvis & Zonen	1968
Koudys' Voederfabrieken BK	1968,5
Koninklijke Nederlandsche Vliegtuigenfabriek Fokker	1969
Nederlandsch-Amerikaanse Stoomvaart-Maatschappij	1969
Heemaf	1969
Heybroek-Zélander	1969
Houthandel v/h P.M. & J. Jongeneel	1969
Chemische Fabriek "Naarden"	1969
Willem Smit & Co's Transformatorenfabriek	1969
Houthandel v/h William Pont	1969
Wm H. Müller & Co	1969
Magazijn "de Bijenkorf"	1969,5
Borneo-Sumatra Handel Maatschappij	1970
Geo. Wehry & Co	1970

table 1 Sales (continued)

Hoek's Machine- en Zuurstoffabriek	1970
Koninklijke Java-China Paketvaartlijnen	1970
Koninklijke Rotterdamsche Lloyd	1970
Nederlandsche Scheepvaart Unie	1970
Stoomvaartmaatschappij "Nederland"	1970

Not disclosing by 1970 or earlier disappearance:

ASW

Tricotagefabrieken vh Frans Beeren & Zonen
 Bilton Maatschappij
 Bronswerk
 J.A. Carp's Garenfabrieken
 Curacaosche Handel-Maatschappij
 Lijm- en Gelatinefabriek "Delft"
 Koninklijke Delftsche Leerlooierij en Drijfriemenfabriek vh Alex Adam
 Deli-Maatschappij
 Domaniale Mijn-Maatschappij
 Koninklijke Fabrieken T. Duyvis Jzn
 Metaalbuizenfabriek Maatschappij "Excelsior"
 Papierfabriek "Gelderland"
 Gerofabriek
 P. de Gruyter & Zoon
 Handelscompagnie
 Verenigde HVA-Maatschappijen
 Hollandia-Kattenburg
 Hollandsche Constructiewerkplaatsen
 Houtvaart
 Kempensche Zinkmaatschappij Zincs de la Campine
 Lindeteves-Jacoberg
 Machinehandel MAHEZ
 Motorenfabriek Thomassen
 van Nieuvelt, Goudriaan & Co's Stoomvaart Maatschappij
 Algemeene Norit Maatschappij
 Verenigde Nederlandse Brouwerijen Oranjeboom
 Koninklijke Paketvaart-Maatschappij
 Metaalbedrijf Rademakers
 Mij tot Expl. der C.G.Rommenhölter'sche Koolzuur- en Zuurstofwerken
 Vereenigde Nederlandsche Rubberfabrieken
 Simplex Machine- en Rijwielfabrieken
 Spanjaard
 Stoomvaart Maatschappij "Oostzee"
 Koninklijke Vereenigde Tapijtfabrieken
 L.E. Tels & Co's Handelsmaatschappij
 Tilburgsche Waterleiding-Maatschappij
 Twentsche Overzee Handelsmaatschappij
 U. Twijnstra's Oliefabrieken
 Koninklijke Papierfabrieken van Gelder Zonen
 Phs van Ommeren
 Veenendaalsche Stoomspinnerij en Weverij
 Verschure & Co's Scheepswerf en Machinefabriek
 Nederlandsche Vlas Spinnerij
 Verenigde Machinefabrieken VMF
 van Waveren's Koninklijke Graanhandel
 Dok- en Werfmaatschappij Wilton-Peyenoord
 Koninklijke Ned fabriek van Wollen Dekens vh J.C. Zaalberg
 Apeldoornse Nettenfabriek von Zeppelin & Co

Table 2. Comparative Figures

<u>Year</u>	<u>Number of Initial disclosures</u>
< 1940	3
1948	1
1949	3
1950	8
1951	35
1952	17
1953	17
1954	11
1955	13
1956	3
1957	4
1958	3
> 1958	3
	<u>121</u>