Voluntary disclosure research: Which theory is relevant?

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The purpose of this paper is to overview the most popular theories that have been used in prior research to explain voluntary corporate disclosures and to provide guidance about the choice of a suitable theory or theories for different types of voluntary disclosure research. It presents a comprehensive comparison of voluntary disclosure theories and relates each of the theories to the type of information disclosure being examined. Following prior research, we classify disclosures into strategic and forward looking, financial, and non-financial information. We show that similarities and differences between theories stem from underlying paradigm differences which are related to incentives to disclose and the costs and benefits considered by each theory. The choice of a suitable theory to underpin the research depends on the type of information disclosure being examined and the external parties considered.

Key words: disclosure; theory; socio-political; signalling; agency

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Introduction

The voluntary disclosure of information by corporations is an enduring and important aspect of the corporate reporting landscape. Voluntary or discretionary disclosures are those disclosures that are made to complement and supplement the disclosures required by accounting and disclosure regulations (Meek, Roberts & Gray 1995). That is, they are unregulated communications between firms and their stakeholders. There is an extensive body of literature that explores the determinants of voluntary corporate disclosures.

The purpose of this paper is to overview the most popular theories that have been used in prior research to explain voluntary corporate disclosure and to provide guidance about the choice of suitable theories for different types of voluntary disclosure research. Several theories have been used in prior research to explain voluntary disclosure practices. These are agency theory, signalling theory, proprietary cost theory, political economy theory stakeholder theory and legitimacy theory. While there are similarities between some of these theories, there are also differences and the choice of a suitable theory to underpin the research depends on the type of information disclosure being examined and the external parties considered. It is therefore important for researchers to have an understanding of these similarities and differences between the theories and their applicability to different types of voluntary corporate disclosures.

While there are several prior studies that have reviewed groups of voluntary disclosure theories, no known prior study provides a comprehensive comparison of the six theories covered in this paper. Morris (1987) provides insights on the relationship between agency and signalling theories, while Healy and Palepu (2001) draw on

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agency, signalling and proprietary cost theories in their review of the empirical disclosure literature. Khlifi & Bouri (2010) briefly overview each of the six theories that we cover in this paper, however they do not analyse the similarities and differences between theories or relate the choice of a suitable theory to the type of information disclosed and the information needs of various user groups. By extending the prior literature in these ways, we aim to assist novice researchers in the choice of one or more theories that are suitable for their voluntary corporate disclosure research.

This paper is organised as follows. Section 2 describes and categorises the types of voluntary disclosures that companies make in their annual and other reports such as sustainability reports. Section 3 describes theories that are frequently used to explain voluntary disclosure practices, while Section 4 illustrates how these theories are similar to and different from each other. Section five concludes the paper and provides guidance about the choice of a suitable theory or theories.

1. Types of information disclosures

There is an enormous amount of literature on voluntary disclosures which covers various types of information disclosures. Voluntary disclosure in annual reports can be classified into three types of information: strategic and forward looking, financial, and non-financial information (Meek, Roberts & Gray 1995). Strategic and forward looking information includes general corporate information, corporate strategy, acquisitions and disposals, research and development, and future prospects. Financial information covers segmental information, financial review, foreign currency information and stock price information and tends to be focused on historical data. Non-financial information includes corporate governance information, corporate social responsibility and environmental reporting and other value added information. A summary of information disclosure types that are voluntarily disclosed in annual and other company reports is presented in Table 1.

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Table 1 - Voluntary disclosure types

Strategic and Forward Looking Information	Financial Information	Non-Financial Information
1. General Corporate Information 1 Brief history of company 2 Organizational structure 3 Corporate vision and mission	**1. Financial Review** 1 Profitability ratios 2 Cash flow ratios 3 Liquidity ratios 4 Gearing ratios 5 Disclosure of intangible valuations (except goodwill and brands) 6 Dividend payout policy 7 Financial history or summary - Three or more years 8 Off balance sheet financing information 9 Advertising information - qualitative 10 Advertising expenditure - quantitative 11 Effects of inflation on future operations - qualitative 12 Effects of inflation on results – qualitative/ quantitative 13 Effects of inflation on assets – qualitative/ quantitative 14 Effects of interest rates on results 15 Effects of interest rates on future operations	**1. Corporate governance information** 1 Board of directors • size and composition of the board • function of board directors and other board committees • procedure and process of appointment and election of directors 2 Directors' remuneration • level and make-up of remuneration for directors and top management • remuneration policy and procedure • remuneration process for performance evaluation of each directors 3 Additional shareholders information • AGM • dialogue between companies and investors 4 Accountability and audit • risk management and internal control system • structure and responsibilities of audit committee • internal and external audit • relationship with auditors • the integrity of financial reporting
2. Corporate Strategy 1 Statement of strategy and objectives - general 2 Statement of strategy and objectives - financial 3 Statement of strategy and objectives - marketing 4 Statement of strategy and objectives - social 5 Impact of strategy on current results 6 Impact of strategy on future results	**2. Segmental Information** 1 Geographical capital expenditure - quantitative 2 Geographical production - quantitative 3 Line-of-business production – quantitative 4 Size of growth rate on product market 5 Competitor analysis - qualitative 6 Competitor analysis - quantitative 7 Market share analysis - qualitative	**2. Social and environmental governance** 1 Statement of the relevance of sustainability to the company and the strategy toward it. 2 Description of key impacts, risks and opportunities. 3 Environmental and social governance, commitments and engagement. • An indication of environmental and social

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	8 Market share analysis – quantitative	responsibility delegation. • Initiatives to provide energy-efficient or renewable energy based products. • Plans to manage and prevent impacts on biodiversity. • Initiatives to reduce greenhouse gas emissions. • Programmes of education and training for employees and community relevant to health and safety and human rights issues. • Participating in public policy development and lobbying regarding environment and social concerns and interests.
3. Future Prospects 1 General discussion of future industry trends 2 Discussion of factors affecting industry trend 3 Qualitative forecast of sales 4 Quantitative forecast of sales 3 Qualitative forecast of profits 4 Quantitative forecast of profits 5 Qualitative forecast of cash flows 6 Quantitative forecast of cash flows 7 Assumptions underlying the forecasts 8 Current period trading results - qualitative 9 Current period trading results - quantitative	**3. Foreign Currency Information** 1 Effects of foreign currency fluctuations on future operations - qualitative 2 Effects of foreign currency fluctuations on current results - qualitative 3 Major exchange rates used in the accounts 4 Long-term debt by currency 5 Short-term debt by currency 6 Foreign currency exposure management description	**3. Corporate Social Responsibility** 1 Labour practices and decent work: • Total workforce by employment type, contract and region. • Benefits provided to employees. • Health and safety education, training and counselling provided employees, their families and community. • Diversity and equal opportunity 2 Human rights performance indicators: • Investment and procurement practices. • Non-discrimination. • Freedom of association and collective bargaining. • Child labour. • Forced and compulsory labour. • Security practices. • Indigenous rights. 3 Society performance indicators: • Programs and practices to asses and manage the impacts of operations on community. • Anti-corruption practices. • Public policy engagement.

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		• Anti-competitive behaviour. • Compliance with laws and regulations. 4 Product responsibility performance indicators: • Customer health and safety. • Product and service labelling. • Marketing communications. • Customer privacy. • Compliance with laws and regulations.
4. Research and Development 1 Corporate policy on research and development 2 Location of research and development activities 3 Number employed in research and development 4 Forecast of R & D expenses 5 Improvement in product quality 6 Improvement in customer service	**4. Stock Price Information** 1 Market capitalization at year end 2 Market capitalization trend 3 Size of shareholdings 4 Type of shareholder	**4. Environmental performance** 1 Materials used and recycled. 2 Direct and indirect energy consumption 3 Water withdrawn and recycled 4 Biodiversity impacts 5 Emissions, effluents and waste 6 Environmental impacts of products and services, transport
5. Acquisitions and Disposals 1 Reasons for the acquisitions/ expansion 2 Reasons for the disposals/ cessation 3 Financing details of acquisition or cessation		**5. Other value added information** 1 Awards received in the reporting period 2 Value added statement 3 Value added data 4 Value added ratios 5 Qualitative value added information

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This table is constructed based on the voluntary disclosures considered in prior studies and the sustainability reporting guidelines of the Global Reporting Initiative (GRI 2006). The types of voluntary information disclosures included in this paper are those made in a company's annual reports and corporate social responsibility and sustainability reports. There are several reasons for the choice of the annual and corporate social responsibility reports as the appropriate medium for this study. First, these documents contain comprehensive activities and outcomes of a firm (Cheng, Courtenay & Krishnamurti 2006). Second, annual and sustainability reports can be easily accessed at any time by different types of stakeholders (Clarkson, Kao & Richardson 1994). Third, the information contained in these documents are often audited or assured and to that extent can be perceived as credible (Depoers & Jeanjean 2010).

Several prior studies on voluntary disclosure investigate the determining factors that influence overall voluntary disclosure practices in annual reports (Haniffa & Cooke 2002; Hossain, Perera & Rahman 1995; Lim, Matolcsy & Chow 2007; Meek, Roberts & Gray 1995), while others focus on a narrower set of voluntary disclosure types. Studies on the voluntary disclosure of strategic and forward looking information are commonly focused on management earnings forecasts (Ajinkya, Bhojraj & Sengupta 2005; Kanagaretnam, Lobo & Whalen 2007; Karamanou & Vafeas 2005). In relation to voluntary disclosure of financial information, previous studies tend to focus on financial ratios (Mitchell 2006; Watson, Shrives & Marston 2002) or segment reporting (Leuz 2003; Prencipe 2004). Examples of studies that examine non-financial voluntary disclosures relate to corporate social responsibility, sustainability and environmental reporting (Cho & Patten 2007; Clarkson et al. 2008; Patten & Trompeter 2003; Yue, Richardson & Thornton 1997), corporate governance information (Bujaki & Mcconomy 2002; Collett & Hrasky 2005; Labelle 2002; Mallin & Ow-Yong 2009), internal control and risk management statements (Bronson, Carcello & Raghunandan 2006; Deumes & Knechel 2008), and employee stock options (Bassett, Koh & Tutticci 2007).

Different types of voluntary information disclosures are directed towards particular report users. Strategic and financial information are commonly directed to investors, while non-financial information is directed to other stakeholders as well as investors. Since different types of voluntary disclosure relate to different aspects of the firm and are targeted to different types of information users, the determining factors of each type of voluntary disclosure are also expected to be different (Chau & Gray 2002; Lim, Matolcsy & Chow 2007). Therefore, the choice of a relevant voluntary disclosure theory or theories depends on the specific type of voluntary information disclosure under consideration.

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3. Overview of theories

The theories most often used in prior research to explain voluntary disclosure practices are agency theory, signalling theory, proprietary cost theory, political economy theory, stakeholder theory and legitimacy theory.

Agency theory:

Agency theory describes the agency relationships between managers and shareholders and between shareholders and debt holders (Jensen & Meckling 1976; Watts & Zimmerman 1978, 1983). Capital providers delegate strategic and operational decision making to managers. Ideally, managers would act and make decision that maximise shareholders' value and ensure that debt will be repaid. However, as agency theory describes, managers make use of their position and power for their own benefit. This agency problem occurs because of separation of firm ownership and control and is exaggerated by information asymmetry problems since managers have better knowledge about firm's future value compared to shareholders and debt holders. This can cause adverse selection and moral hazard problems because capital providers are uncertain whether managers are acting in their best interests. As such managers, shareholders and debt holders have incentives to align their interests. Monitoring and bonding devices are the most common tools used by capital providers to reduce agency and information asymmetry problems. The adoption of these monitoring and bonding devices is costly.

Examples of monitoring devices that are used by shareholders to ensure managers provide complete information include the appointment of a board of directors and the use of board committees. Managers have an incentive to provide credible information to shareholders and debt holders and they do this by preparing audited financial reports and other disclosures (Watson, Shrives & Marston 2002). The bonding devices are contractual agreements such as debt contracts and compensation packages that bond managers' interest to those of the capital providers. The adoption of these monitoring and bonding devices enables agency problems and information asymmetries to be reduced, and thus lowers the overall agency costs associated with devaluation of firm value (Jensen & Meckling 1976). That is, monitoring and bonding devices reduce the agency costs of equity and debt. Hossain, Perera and Rahman (1995) is an example of a voluntary disclosure study that uses agency theory. These authors find that firms with high leverage tend to release detailed information in order to reduce the cost of debt.

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Signalling theory

Signalling theory deals with the issue of information asymmetry problems (Akerlof 1970; Levin 2001; Morris 1987; Ross 1977). The theory shows how information asymmetry problems can be reduced by the party with more information signalling it to others. This signalling involves communicating firm 'quality' or value through communication channels such as voluntary disclosure, product warranties or the financial accounts. In the case of voluntary corporate disclosures, managers provide additional information to investors to help them in making investment decisions. According to signalling theory, managers who expect a high level of future growth signal that to investors. Several prior studies confirm the predictions of signalling theory that suggests a high quality firm will not shy away from telling the market about their quality (for example see Kanagaretnam, Lobo and Whalen (2007) and Mitchell 2006). Managers of firms with neutral news also have an incentive to report positive news so that they are not suspected of having poor results.

Managers of firms with poor performance have incentives not to report their bad news. This claim is consistent with Kothari, Shu and Wysocki's (2009) analysis. They contend that firm's management tend to conceal or postpone the disclosure of bad news because the magnitude of the market reaction to bad news is higher than that to good news. On the other hand, firms also have an incentive to report their bad news to avoid litigation costs for failure to disclose and to maintain the firms' equity value. According to Skinner (1994) managers 'pre-empt' bad news (such as earnings decline) in order to avoid such litigation and reputational costs. Hence signalling theory assumes that firms will disclose more information than is demanded. To be effective, the signal must not be easily copied by another firm and must conform to the actual quality of the firm (Morris 1987).

Proprietary cost theory

Proprietary costs provide an incentive for managers not to disclose some information voluntarily (Healy & Palepu 2001). This theory argues that managers may be reluctant to disclose more information if they believe it contain proprietary information which can be harmful to their firm (Dye 1985; Verrecchia 1983, 1990). Proprietary costs theory has been used to explain disclosure of segment information because of the proprietary nature and commercial sensitivity of this information compared to other information such as cash flow statements disclosures (Leuz 2003). Depoers and Jeanjean (2010) investigate the frequency of financial disclosure behaviour. They find that competitors' concentration and behaviour is able to explain the disclosure and non-disclosure of financial information.

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The costs and benefits of disclosure will be examined by managers before making any decision on whether to disclose. In this regard, Suijs (2005) shows theoretically that a firm's propensity to disclose bad news is increasing if it finds that the proprietary costs are higher than the disclosure costs. Proprietary costs can be divided into two types: internal costs which include the costs of preparing and disclosing information; and external costs which result from a consequence of competitors' action to use the information disclosed for their own advantage (Prencipe 2004). Hence, firms have an incentive to voluntarily disclose certain information if: a) they seek some benefits from this disclosure such as reduction in the cost of equity capital (Botosan 1997; Botosan & Plumlee 2002) or debt capital (Sengupta 1998), and the benefits of this disclosure exceeds its costs; or b) the disclosure of this information does not harm the firm' share value, and in turn can facilitate a reduction in information asymmetry problems.

Political economy theory

Gray, Owen and Adams (1996, p. 47) define this theory as " ... the social, political and economic framework within which human life takes place". The main idea of this theory is that political, social and economic activities cannot be run in the absence of one of these elements. Therefore, any business to be performed should take in consideration the society and politics (Deegan 2009). Pressure is exerted on firms from several stakeholders. Therefore, financial, social and environmental disclosure is used to provide information to different recipients in order to meet their interests. That is, firms voluntarily disseminate particular information to either seek support from particular stakeholders (such as government, customers or environmental organisations) or to mitigate the pressure that is exerted on them from those stakeholders. Gray, Owen and Adams (1996) argue that this theory has two variants which are 'classical' and 'bourgeois'. While the classical variant puts the state at the centre of all activities, the bourgeois variant describes the interactions between several groups in a pluralistic world. Stakeholder and legitimacy theories have been derived from this branch of political economy theory (Deegan 2009).

Stakeholder theory

The departure point of stakeholder theory is that an organisation is considered as a part of the social system. This system consists of several groups that are working together to achieve the system's targets. One part of this system is stakeholders, who are interacting with the organisation to achieve their goals. The achievement of an organisation's goals cannot be achieved in the absence of fulfilling the stakeholders' interests (Freeman

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1984; Freeman & Reed 1983). Freeman (2001 p. 59) states "Corporation have stakeholders, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions". Therefore, for an organisation to achieve its objectives it will affect and in turn be affected by its stakeholders (Deegan 2009).

Stakeholder theory assumes that an organisation's management decisions cannot be taken in the absence of consideration of stakeholders' interests. Hence, the satisfaction of those stakeholders must be sought in order to continue operating within the stakeholders' context. That is, firms are taking actions in order to fulfil the expectations of particular stakeholders who have the power to impact on their performance (Deegan 2009). In relation to disclosure practices, firms have incentives to disclose particular information to particular stakeholders in order to convince them that they are complying with their requirements. As such, stakeholder theory tells how managers should morally act because they have a fiduciary relationship to stakeholders. Cormier, Gordon and Magnan (2004) argue that managers' perceptions about stakeholders' interests are a key determinant of environmental and social disclosure practices. They attribute this to 'an intrinsic commitment' from managers toward stakeholders. In addition, van der Laan, Adhikari and Tondkar (2005) affirm the stakeholders' role in determining the extent and quality of social disclosure.

Legitimacy theory

The notion of legitimacy stems from the social contract concept, where an organisation derives its legitimacy from the contract between it and society (Cormier & Gordon 2001). Lindblom (cited in Deegan 2009, p. 323) defines legitimacy as:

> ... a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two values systems, there is a threat to the entity's legitimacy.

Legitimacy theory assumes that an organisation needs to operate within norms or standards which have been identified in the "social contract" between the organisation and society. Therefore, the organisation is always trying to seek the legitimacy which is conferred by society based on the social contract between them. Once an organisation feels that its legitimacy is threatened, it will pursue several strategies to retain this legitimacy. In this regard, O'Donovan (2002, p. 348) describes the legitimacy theory as :

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> ... the greater the likelihood of adverse shifts in a corporation's conferring publics' perceptions of how socially responsible a corporation is, the greater the desirability on the part of the corporation to attempt to manage these shifts in social perception.

Therefore, social and environmental disclosure can be used by an organisation as a tool to deal with society's demands and needs (Freedman & Jaggi 2005). By making social and environmental disclosures, firms are trying to convey a message to several types of stakeholders emphasizing that they are conforming to their expectations, and persuading them about their performance in order to maintain their legitimacy. Stanny (2010) tests whether US companies respond to the pressure exerted on them by one group of stakeholders, institutional investors, to disclose climate change related information. He affirms that answering the Carbon Disclosure Project (CDP) questionnaire can be used as a new tool to increase legitimacy by diverting the stockholders' attention from actual performance. According to Stanny (2010), this can be achieved by answering the questionnaire without including sufficient information about the real emissions and accounting methodology used to calculate them.

2. Similarities and differences between theories

The six theories described above can be broadly classified into two main types. Legitimacy theory, stakeholder theory and political economy theory can be grouped together under the general heading 'socio-political theories'. There is substantial overlap between these three theories and each suggests that social and/or political factors determine certain organisational behaviours including some voluntary disclosures. On the other hand, agency, signalling and proprietary cost theories have their basis in economics and are focused on wealth maximisation as the determinant of organisational behaviours such as accounting and corporate disclosure choices. These economics based theories are sometimes criticised for being too narrowly focused compared to the broader based socio-political theories. In addition, Socio-political theories introduce the concept of firm corporate image or citizenship. While such socially responsible behaviour may lead to an increase in firm value, this is not a consideration in these theories. On the other hand, agency, signalling and proprietary cost theories are concerned only with maximisation of firm value and give no consideration to corporate citizenship.

Underlying paradigm differences between these two sets of theories leads to several points of departure when they are applied to the explanation of voluntary corporate disclosures. These include incentives to disclose, the costs and benefits considered, their relevance for different report user groups, and the types of information disclosed.

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Incentives to disclose

Corporate disclosures reduce information asymmetries between corporate insiders and parties external to the firm. Indeed, information asymmetry problems are a necessary condition for signalling theory, and without it the need for signalling does not exist (Morris 1987). Reducing information asymmetries is the primary incentive for voluntary disclosure underlying the economics based theories since information asymmetries can lead to problems of adverse selection and moral hazard, both of which are costly. Signalling theory addresses adverse selection problems since it is concerned with conveying information about the quality of various aspects of the firm to investors and capital providers. Socio-political theories can also be viewed as conveying aspects of firm quality to a broader group of stakeholders and society at large. However these theories lack a necessary condition of signalling theory: that in order to be legitimate signals of quality, the voluntary disclosures must be difficult for inferior firms to mimic. Hence voluntary disclosures that are made with the aim of demonstrating social responsibility but that do not reflect true underlying quality will increase rather than decrease adverse selection problems.

The separation of ownership and control, and the related need to monitor managers' behaviours as articulated in agency theory imply a strong focus on moral hazard. Disclosure is one of the mechanisms used to monitor manager behaviour thereby reducing problems of moral hazard. The social contract of legitimacy theory can also be viewed as a mechanism to reduce moral hazard, with members of society taking on a monitoring role in relation to the firm. The primary incentives to disclose under the socio-political theories relate to firm legitimisation and responding to social or political pressure. Stakeholder pressure is related to the ability of various stakeholder groups to withdraw support for the organisation if their expectations are not met. The power of various stakeholder groups is what induces companies to voluntarily disclose information in response to their expectations. That is, While legitimacy theory assumes that companies disclose more information about their performance in order to maintain their legitimacy within society, stakeholder theory assumes that firms are performing in order to fulfil the expectations of particular stakeholders who have the power to impact on their performance (Deegan 2009).

Costs and benefits of disclosure

Incentives to disclose, or indeed not to disclose, emanate from the costs and benefits associated with each theory. For agency theory, incentives to disclose come from the threat of price protection by debt and equity capital providers and from increased government taxes. Agency costs are clearly articulated in the theory,

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including the use of bonding and monitoring mechanisms to reduce overall agency costs. For signalling theory, the potential for undervaluation provides an incentive to signal good news to investors; while potential legal and reputation costs provide incentives not to withhold bad news from this group. Proprietary cost theory focuses on the economic consequences of disclosing information that is commercially sensitive. Socio-political theories suggested that firms will be penalised if they do not operate consistently in accordance with the expectation of various stakeholders group; thus also providing some consideration of economic incentives to disclose. For example, potential economic benefits related to reputation effects for particular stakeholder groups such as customers and employees may provide incentives to disclose good news; thus avoiding lost sales revenues or problems maintaining an effective workforce. In all cases, these costs will be borne by company management either directly or indirectly, thus providing an incentive to disclose. While there are potential economic benefits related to societal legitimacy or enhanced reputation, the socio-political theories are primarily concerned with company responses to social and political pressures per se and do not emphasise financial considerations.

Report user groups

Economics based theories tend to consider investors or other capital providers, while the socio-political theories focus on a broader set of external stakeholders including competitors, employees, customers, governments, communities and wider society (Cormier, Magnan & Van Velthoven 2005). However one aspect of agency theory, the political cost hypotheses, is slightly broader and considers the potential for economic costs to be imposed by the political system in the form of government taxes. Similarly, the socio-political theories vary in the extent to which capital providers are considered. For example, legitimacy theory focuses on a 'social contract' whereby legitimacy is obtained from society as a whole and cannot be obtained from investors. On the other hand, stakeholder theory considers investors and other capital providers as well as a broader set of company stakeholders.

Types of voluntary disclosures

Agency theory is the prevalent theory for explaining financial disclosures since these are the predominant form of disclosures used for monitoring the relationship between company management and capital providers. However agency theory also has some application to non-financial disclosures, particularly where there are contracts that include non-financial terms such as the environmental covenants that are often included in debt contracts. Given that corporate governance mechanisms are an important aspect of reducing moral hazard,

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voluntary disclosures about corporate governance attributes also have a basis in agency theory. Signalling theory is concerned with signalling firm quality and this can relate to any aspect of the firm including financial, strategy and non-financial aspects of quality. Proprietary cost theory is relevant to all types of voluntary disclosures that have the potential to provide information of value to the firm's competitors. Disclosures about firm strategy and some financial and non-financial disclosures are subject to proprietary costs.

Socio-political theories suggest that social and/or political factors determine social and environmental disclosures (Patten 2002), and they are generally used to explain these types of non-financial disclosures rather than financial disclosures. Indeed, legitimacy theory is not able to explain financial disclosure practices, and tends to be limited to events when particular circumstances occur (for example, human rights or environmental incidents). Socio-political theories can also be used to explain some types of strategic and forward-looking disclosures such as future prospects.

3. Conclusions and guidance for choosing a suitable theory or theories

In this paper we provide a comprehensive comparison of six theories that are often used in research that explores the determinants of voluntary corporate disclosures. We compare and contrast the theories in relation to underlying paradigm differences which are related to incentives to disclose and the costs and benefits considered by each theory. Further, we relate each of the theories to the type of information disclosure being examined and the information users considered. Following prior research, we classify disclosures into strategic and forward looking, financial, and non-financial information.

Strategic and forward looking disclosures are often explained using signalling and proprietary cost theories, with proprietary costs providing a reason not to disclose sensitive information. Although some types of strategic and forward looking disclosures such as information about company strategy and objectives are relevant to a broader group of report users including customers and employees; hence socio-political theories such as stakeholder theory may also be relevant. Financial disclosures are generally explained using the economics based theories of agency, signalling and proprietary costs. Non-financial disclosures include a broad range of different types of information and all six of the theories examined in this paper are potentially useful for explaining non-financial disclosures. For example, agency theory could be used to explain corporate governance disclosures but it is not useful when corporate social responsibility disclosures are considered. On the other hand legitimacy theory is often used to explain corporate social responsibility disclosures but is less useful for explaining corporate governance disclosures.

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The choice of theory may lead to differences in hypotheses. Signalling and socio-political theories lead to different predictions about the relationship between aspects of firm performance and voluntary disclosures. For example, signalling theory predicts a positive relationship between environmental performance and 'hard' or readily verifiable voluntary disclosures, while socio-political theories predict a negative relationship between environmental performance and 'soft' claims about commitment to the environment which are not readily verifiable (Clarkson et al. 2008). On the other hand, both types of theories imply that predominantly 'good' news will be disclosed. With the exception of potential legal and negative reputation costs, economic incentives encourage the disclosure of 'good news' and the withholding or delayed disclosure of 'bad' news.

In addition to the type of information disclosed, it is also important for the researcher to consider the context of the research. For example, some theories cannot be applied in settings where a stock market does not exist or is still developing, or in markets where family or government ownership is significant (Lopes & Rodrigues 2007). Another important aspect of research context is which report users are of interest. For example, if the research question revolves around a narrow set of stakeholders such as investors, socio-political theories may not be relevant regardless of the type of information disclosure under consideration.

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