Doctor of Business Economics

Voluntary Disclosure of Sales in Small Companies

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Abstract

In this dissertation, we investigate when and why small companies voluntarily disclose financial information.

In Belgium, small companies can publish abbreviated financial statements. These contain less detailed information than full financial statements. The main ‘benefit’ of publishing abbreviated financial statements is the option to not disclose the sales figure. In the absence of capital market pressures, small companies may be expected to have few incentives to provide more information than what is legally required. And in limiting disclosure, they keep more corporate and personal income details private.

However, some small companies voluntarily disclose more information than what is legally required. Data from the Bel-First database reveal that around 16% of the small companies in Belgium voluntarily disclose the sales figure in the abbreviated financial statements. This suggests that these companies expect net benefits from voluntary disclosure.

Although considerable debate exists about the relative benefits of publicly available financial information for small companies, empirical evidence is limited. Furthermore, this issue has grown in importance in light of the recent EU measures towards deregulation of disclosure requirements for small companies. This dissertation therefore seeks to answer two questions. First, which small companies disclose financial information voluntarily? Second, are there benefits attached to higher disclosure levels?

In chapter 1, we considered the entire Belgian population of small companies. We find that small companies with greater agency and information problems are more likely to disclose sales voluntarily. Trade credit, growth and profitability are important drivers of voluntary disclosure.
Remarkably, and in contrast to prior research within the group of large companies, the likelihood of voluntary disclosure is negatively associated with the size of the small company.

In chapter 2, we interrogated a sample of small companies via a questionnaire. Many small companies seem unaware of their disclosure behaviour, in particular the smallest companies. These companies rely for a large part on their accountants’ advice for their disclosure policy. When companies consciously consider the (non-)disclosure option, different explanations are provided. Companies that disclose sales typically want to be transparent or want to signal that they are well managed. Companies that do not disclose sales typically want to maintain
confidentiality, especially towards competitors. Results from the regression analysis also show that subsidiaries are far less likely to disclose sales voluntarily than stand-alone companies.

In chapter 3, and on the basis of our finding in chapter 2, we investigated the role of accountants in the disclosure decisions of small companies. The majority of accountants discuss the costs and benefits of the disclosure options with their clients. For most accountants, not disclosing the sales figure is the default option. However, some accountants indicate that in particular circumstances and for certain clients, the benefits of disclosing the sales figure outweigh the costs.

In chapter 4, we examined voluntary disclosure is positively associated with the amount of trade credit. Small companies are in general more informationally opaque than large companies. This makes it difficult for them to access external finance. We find a significant positive relationship between the disclosure of sales in the abbreviated financial statements and the level of trade credit. Voluntary disclosure seems to help small companies to mitigate information asymmetries.

Our study contributes to a better understanding of the disclosure behaviour of small companies. Our conclusions are useful to preparers, stakeholders and policy makers engaged in the debate on simplifying disclosure requirements in a small company context.