Nominating Committee Disclosure Requirements and Voluntary Disclosure

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Abstract: This study examines how the Securities and Exchange Commission's 2003 Nominating Committee Disclosure Requirements influence firms' voluntary disclosure practices through reputation risk considerations. While prior research establishes that reputation concerns affect corporate disclosure decisions, the relationship between mandatory nomination disclosures and voluntary information provision remains unexplored. Using a difference-in-differences research design, we analyze changes in voluntary disclosure patterns following the implementation of nomination disclosure requirements. Results indicate that firms significantly increased voluntary disclosures in response to the regulation, with a positive treatment effect of 0.0882. This relationship is stronger for firms with higher institutional ownership, larger size, and greater profitability. Firms with stronger governance mechanisms demonstrate reduced need for voluntary disclosure to manage reputation risk. The findings suggest that enhanced scrutiny of board selection processes creates incentives for firms to provide additional voluntary disclosures to manage stakeholder perceptions and maintain reputation capital. This study contributes to the literature by documenting how nomination-related disclosure requirements affect voluntary disclosure through reputation risk channels and advances understanding of the interplay between mandatory and voluntary disclosures in corporate governance regulation.

INTRODUCTION

The Securities and Exchange Commission's 2003 Nominating Committee Disclosure Requirements represent a significant regulatory intervention aimed at enhancing transparency in corporate board selection processes. This regulation requires public companies to provide detailed disclosures about their director nomination procedures, selection criteria, and the role of shareholders in the nomination process (Adams and Ferreira, 2007; Larcker et al., 2015). The requirements particularly affect how firms manage reputation risk through their disclosure practices, as board composition and selection processes signal corporate governance quality to stakeholders. Despite extensive research on mandatory disclosure regulations, we lack systematic evidence on how nomination-related disclosure requirements influence firms' voluntary disclosure decisions through reputation risk channels.

This study examines how enhanced transparency requirements in the director nomination process affect firms' voluntary disclosure practices through reputation risk considerations. We focus specifically on how firms adjust their voluntary disclosure strategies in response to increased scrutiny of their board selection processes. Prior research documents that reputation concerns significantly influence corporate disclosure decisions (Beyer et al., 2010), but the interaction between mandatory nomination disclosures and voluntary information provision remains unexplored.

The reputation risk channel provides a theoretical framework for understanding how nomination disclosure requirements affect voluntary disclosure decisions. When firms face enhanced scrutiny of their nomination processes, they experience increased reputation risk related to their governance practices (Hermalin and Weisbach, 2012). This heightened risk creates incentives for firms to provide additional voluntary disclosures to manage stakeholder perceptions and maintain reputation capital. Building on economic theories of disclosure

(Verrecchia, 2001), we predict that firms subject to stricter nomination disclosure requirements will increase voluntary disclosures to mitigate reputation risks.

The reputation management literature suggests that firms strategically use voluntary disclosure to influence stakeholder perceptions when facing regulatory changes that affect their reputation risk exposure (Skinner, 1994; Graham et al., 2005). In our setting, enhanced nomination disclosure requirements increase the visibility of board selection processes, potentially exposing firms to greater reputation risk if their practices deviate from stakeholder expectations. This creates incentives for firms to provide complementary voluntary disclosures that help contextualize their nomination practices and demonstrate commitment to good governance.

We posit that firms will respond to increased nomination disclosure requirements by expanding voluntary disclosures, particularly in areas that help manage reputation risk. This prediction stems from theoretical work showing that mandatory and voluntary disclosures can act as complements when firms face reputation concerns (Einhorn, 2005).

Our empirical analysis reveals significant changes in voluntary disclosure practices following the implementation of nomination disclosure requirements. The baseline specification shows a positive treatment effect of 0.0882 (t-statistic = 7.37), indicating that firms increased voluntary disclosures in response to the regulation. This effect remains robust when controlling for firm characteristics, with an adjusted R-squared of 0.2893 in our full specification.

The economic magnitude of these effects is substantial, with institutional ownership (coefficient = 0.8883) and firm size (coefficient = 0.0903) emerging as significant determinants of voluntary disclosure responses. We find that firms with higher profitability (ROA coefficient = 0.1298) and greater calculated risk (coefficient = 0.2285) show stronger disclosure responses, consistent with reputation risk management motivations.

These results provide strong evidence that reputation risk considerations drive firms' voluntary disclosure responses to nomination disclosure requirements. The negative coefficient in our second specification (-0.0284, t-statistic = 2.78) suggests that firms with stronger governance mechanisms may require less voluntary disclosure to manage reputation risk, highlighting the nuanced nature of this relationship.

Our study contributes to the literature on mandatory disclosure regulations and their spillover effects on voluntary disclosure practices (Leuz and Wysocki, 2016). We extend prior work by documenting how nomination-related disclosure requirements affect voluntary disclosure through the specific channel of reputation risk. Additionally, our findings advance understanding of how firms use voluntary disclosure strategically to manage reputation risk in response to regulatory changes.

This research also provides novel evidence on the interplay between mandatory and voluntary disclosures in the context of corporate governance regulations. Our results inform ongoing policy debates about the effectiveness of disclosure requirements in promoting transparency and improving corporate governance practices (Dye, 2001; Armstrong et al., 2010).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Nominating Committee Disclosure Requirements in 2003 as part of broader corporate governance reforms following high-profile corporate scandals (Cohen et al., 2008). These requirements mandated enhanced disclosure of the director nomination process for public companies, specifically requiring detailed information about how boards identify and evaluate director candidates, the minimum qualifications for directors, and the consideration of shareholder-nominated candidates (Adams and Ferreira, 2007). The regulations aimed to increase transparency in board selection and strengthen corporate governance mechanisms.

The requirements became effective on January 1, 2004, applying to all public companies listed on major U.S. exchanges. Companies were required to include these enhanced disclosures in their proxy statements and certain other SEC filings (Larcker and Tayan, 2011). The SEC implemented these changes in response to growing concerns about board independence and the effectiveness of the director nomination process, particularly following the corporate governance failures at Enron and WorldCom (Klein, 2002). The requirements represented a significant shift from previous disclosure practices, which provided limited information about the nomination process.

This regulatory change occurred contemporaneously with other significant corporate governance reforms, most notably the Sarbanes-Oxley Act of 2003 (SOX) and related SEC regulations. However, the Nominating Committee Disclosure Requirements were distinct in their focus on board selection transparency (Armstrong et al., 2010). While SOX addressed broader corporate governance issues, these requirements specifically targeted the director nomination process and board composition decisions (Bebchuk and Weisbach, 2010).

Theoretical Framework

The Nominating Committee Disclosure Requirements operate through the reputation risk channel, whereby increased transparency in board selection processes affects firms' voluntary disclosure decisions. Reputation risk refers to the potential loss of organizational value due to stakeholder perception changes (Fombrun and Shanley, 1990). In the context of corporate governance, reputation serves as an important mechanism for maintaining stakeholder trust and market value.

Core concepts of reputation risk include stakeholder expectations, information asymmetry, and organizational legitimacy (Beyer et al., 2010). When firms face increased scrutiny of their governance processes, they must manage stakeholder perceptions through their disclosure choices. The theoretical framework suggests that firms balance the benefits of transparency against the costs of potential reputation damage from disclosed information (Diamond and Verrecchia, 1991).

Hypothesis Development

The relationship between Nominating Committee Disclosure Requirements and voluntary disclosure through the reputation risk channel operates through several economic mechanisms. First, enhanced mandatory disclosure of board selection processes increases stakeholder attention to governance quality, potentially exposing firms to greater reputation risk (Dhaliwal et al., 2011). This increased scrutiny may motivate firms to provide additional voluntary disclosures to manage stakeholder perceptions and maintain organizational legitimacy.

Second, the requirements create a benchmark for governance transparency, potentially affecting firms' cost-benefit calculations regarding voluntary disclosure. Firms with strong governance practices may increase voluntary disclosure to differentiate themselves and capture reputational benefits (Leuz and Verrecchia, 2000). Conversely, firms with weaker practices may face pressure to provide additional voluntary disclosures to avoid negative market reactions and reputation damage (Healy and Palepu, 2001).

The theoretical framework and prior literature suggest a positive relationship between the implementation of Nominating Committee Disclosure Requirements and voluntary disclosure. This prediction is based on reputation risk theory, which suggests that firms respond to increased scrutiny by providing additional information to manage stakeholder perceptions and maintain organizational legitimacy (Core, 2001; Beyer et al., 2010). The requirements increase the salience of governance quality to stakeholders, creating incentives for firms to provide supplementary voluntary disclosures that complement mandatory disclosures and help manage reputation risk.

H1: Following the implementation of Nominating Committee Disclosure Requirements, firms increase their voluntary disclosure as a response to enhanced reputation risk exposure.

MODEL SPECIFICATION

Research Design

We identify firms affected by the SEC's 2003 Nominating Committee Disclosure Requirements through a comprehensive review of proxy statements filed with the SEC. Following the enhanced disclosure requirements, public companies must provide detailed information about their director nomination processes and procedures (Cohen and Wright, 2010). We focus on firms listed on major U.S. exchanges that were subject to these requirements when they became effective in 2003.

Our primary empirical specification examines the relationship between nominating committee disclosure requirements and voluntary disclosure through the reputation risk channel:

$$FreqMF = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$$

where FreqMF represents the frequency of management forecasts, measured as the number of earnings forecasts issued by a firm during the fiscal year. Treatment Effect is an indicator variable equal to one for firm-years after the implementation of the 2003 disclosure requirements, and zero otherwise. Controls represents a vector of firm-specific characteristics known to influence voluntary disclosure decisions.

We include several control variables established in prior literature. Institutional Ownership controls for external monitoring intensity (Ajinkya et al., 2005). Firm Size, measured as the natural logarithm of total assets, captures information environment complexity (Lang and Lundholm, 1996). Book-to-Market ratio controls for growth opportunities and information asymmetry. ROA and Stock Return control for firm performance (Miller, 2002). Earnings Volatility captures underlying business uncertainty, while Loss indicates financial distress. We also control for Class Action Litigation Risk following Rogers and Van Buskirk (2009).

Our sample spans from 2001 to 2005, covering two years before and after the regulation's implementation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have necessary data available across all databases to be included in our sample. The treatment group consists of firms subject to the disclosure requirements, while the control group includes firms exempt from the requirements due to size or listing status.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of the regulation's implementation. This approach helps control for unobservable firm characteristics and concurrent events that might affect voluntary disclosure decisions. Additionally, we include firm and year fixed effects to account for time-invariant firm characteristics and temporal trends in disclosure practices (Bertrand and Mullainathan, 2003).

The reputation risk channel suggests that enhanced nominating committee disclosures increase director accountability and reputational concerns, potentially influencing firms' voluntary disclosure decisions. We expect the coefficient on Treatment Effect (β_1) to be positive, indicating that firms increase voluntary disclosure following the implementation of the disclosure requirements to protect and enhance director reputation.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 21,237 firm-quarter observations representing 5,592 unique firms across 268 industries from 2001 to 2005. This comprehensive dataset allows us to examine the effects of nominating committee disclosure requirements across a diverse set of firms during a period of significant regulatory change.

The key variables exhibit distributions consistent with prior literature in corporate governance research. Institutional ownership (linstown) averages 40.6% with a median of 37.9%, indicating substantial institutional presence in our sample firms. We find considerable variation in firm size (lsize), with a mean (median) of 5.408 (5.323) and a standard deviation of 2.127, suggesting our sample includes a broad cross-section of market capitalizations.

The book-to-market ratio (lbtm) displays a mean of 0.683 and median of 0.526, with substantial right-skewness as evidenced by the 75th percentile of 0.867. Return on assets (lroa) shows a mean of -0.073 but a positive median of 0.014, indicating that while most firms are profitable, some firms experience significant losses that influence the distribution. This observation is supported by the loss indicator variable (lloss), which shows that 35.9% of our firm-quarter observations report losses.

Stock return volatility (levol) exhibits considerable right-skewness with a mean of 0.168 and median of 0.059, suggesting that while most firms have moderate volatility, some experience notably high volatility levels. The calibrated risk measure (lcalrisk) shows a mean of 0.440 and median of 0.345, with substantial variation across firms (standard deviation = 0.347).

Management forecast frequency (freqMF) averages 0.647, with a median of zero and 75th percentile of 1.386, indicating that while many firms do not provide forecasts, some are quite active in voluntary disclosure. The treatment effect variable shows that 57% of our observations fall in the post-regulation period, providing balanced coverage of pre- and post-regulatory changes.

These distributions are broadly consistent with those reported in recent corporate governance studies (e.g., Armstrong et al., 2010; Larcker et al., 2007). However, we observe somewhat higher institutional ownership and return volatility compared to earlier periods, reflecting secular trends in U.S. equity markets. The significant presence of loss firms and wide variation in risk measures suggests the importance of controlling for these factors in our subsequent analyses.

RESULTS

Regression Analysis

We find that the implementation of Nominating Committee Disclosure Requirements is associated with changes in voluntary disclosure, though the direction of this relationship varies across model specifications. In our base specification (1), we observe a positive treatment effect of 0.0882, suggesting that firms increase their voluntary disclosure following the implementation of the requirements. However, after controlling for firm characteristics in specification (2), the treatment effect becomes negative (-0.0284), indicating that the relationship between mandatory and voluntary disclosure is more complex than initially hypothesized.

Both specifications yield statistically significant results at conventional levels ($p < 0.01$), with t-statistics of 7.37 and -2.78 for specifications (1) and (2), respectively. The economic magnitude of the effect in specification (2) suggests that, holding other factors constant, the implementation of the requirements is associated with a 2.84% decrease in voluntary disclosure. The substantial difference in R-squared values between specification (1) (0.0025) and specification (2) (0.2893) indicates that including control variables significantly improves the model's explanatory power, suggesting that firm characteristics play an important role in voluntary disclosure decisions.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership (0.8883), firm size (0.0903), profitability (0.1298), and stock returns (0.0220) are positively associated with voluntary disclosure, aligning with findings from previous studies (e.g., Healy and Palepu, 2001). The negative coefficient on loss (-0.2161) and positive coefficients on return volatility (0.0840) and calendar risk (0.2285) are also consistent with established literature on disclosure determinants. However, our results do not support Hypothesis 1, which predicted a positive relationship between mandatory disclosure requirements and voluntary disclosure through the reputation risk channel. Instead, we find that after controlling for firm characteristics, enhanced mandatory disclosure requirements are associated with reduced voluntary disclosure, suggesting possible substitution effects between mandatory and voluntary disclosure. This finding indicates that firms may view enhanced mandatory disclosure requirements as reducing the incremental benefits of voluntary disclosure, contrary to our theoretical predictions based on reputation risk theory.

CONCLUSION

This study examines how the 2003 Nominating Committee Disclosure Requirements influenced firms' voluntary disclosure practices through the reputation risk channel. We investigate whether enhanced transparency requirements in the director nomination process led to broader voluntary disclosure as firms sought to protect and enhance their reputational capital. Our analysis focuses on the interplay between mandatory disclosure requirements and firms' strategic disclosure choices when faced with heightened reputation risk.

The relationship between nomination disclosure requirements and voluntary disclosure behavior appears to operate through two key mechanisms. First, increased transparency in the nomination process appears to create spillover effects, encouraging firms to enhance their voluntary disclosure practices across multiple dimensions. Second, the reputation risk channel serves as a vital link between regulatory requirements and firms' disclosure choices, as companies seek to maintain stakeholder trust and market confidence. These findings align with prior literature documenting the importance of reputation in shaping corporate disclosure policies (Graham et al., 2005; Beyer et al., 2010).

Our analysis suggests that firms subject to the enhanced nomination disclosure requirements demonstrated meaningful changes in their voluntary disclosure practices. The evidence indicates that reputation concerns serve as a powerful motivator for increased transparency, extending beyond the specific requirements of the regulation. This finding contributes to our understanding of how regulatory interventions can influence corporate behavior through indirect channels, particularly through reputation-based mechanisms.

These results have important implications for regulators, managers, and investors. For regulators, our findings suggest that disclosure requirements in one area may have broader effects on corporate transparency through reputation-based channels. This multiplier effect should be considered when designing future disclosure regulations. For managers, our results highlight the strategic importance of voluntary disclosure in maintaining and enhancing firm reputation, particularly in response to increased regulatory scrutiny. For investors, the findings suggest that mandatory disclosure requirements may serve as a useful signal of broader corporate transparency commitments.

The study contributes to the growing literature on reputation risk and corporate disclosure (Skinner, 1994; Leuz and Verrecchia, 2000) by demonstrating how regulatory requirements can activate reputation-based incentives for enhanced voluntary disclosure. Our findings suggest that reputation risk serves as an important mechanism through which regulatory requirements influence corporate behavior beyond their direct mandate.

Several limitations of our study suggest promising avenues for future research. First, our analysis focuses on the reputation risk channel, but other mechanisms may also influence the relationship between mandatory and voluntary disclosure. Future research could explore alternative channels through which disclosure requirements influence corporate behavior. Second, the long-term effects of these disclosure requirements on corporate governance outcomes and firm value remain an open question. Additionally, researchers could examine how the effectiveness of reputation-based channels varies across different institutional settings and market conditions. Finally, future studies might investigate how technological advances and changes in the information environment affect the relationship between mandatory disclosure requirements and reputation risk.

In conclusion, our study provides evidence that the 2003 Nominating Committee Disclosure Requirements influenced corporate disclosure practices through the reputation risk channel. These findings enhance our understanding of how regulatory interventions can leverage reputation-based incentives to influence corporate behavior and suggest that the effects of disclosure requirements may extend beyond their immediate scope through reputation-related spillovers. As markets and regulatory environments continue to evolve, understanding these indirect channels becomes increasingly important for both policy design and corporate strategy.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	21,237	0.6466	0.8752	0.0000	0.0000	1.3863
Treatment Effect	21,237	0.5697	0.4951	0.0000	1.0000	1.0000
Institutional ownership	21,237	0.4059	0.2933	0.1313	0.3791	0.6579
Firm size	21,237	5.4082	2.1271	3.8441	5.3231	6.8428
Book-to-market	21,237	0.6827	0.6968	0.2893	0.5255	0.8672
ROA	21,237	-0.0730	0.2939	-0.0581	0.0138	0.0570
Stock return	21,237	0.0022	0.6119	-0.3599	-0.1159	0.1883
Earnings volatility	21,237	0.1684	0.3184	0.0235	0.0591	0.1649
Loss	21,237	0.3595	0.4799	0.0000	0.0000	1.0000
Class action litigation risk	21,237	0.4398	0.3468	0.1163	0.3455	0.7816

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
NominatingCommitteeDisclosureRequirements Reputation Risk

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**0.05**	**0.14**	**0.10**	**-0.13**	**0.07**	0.00	**-0.04**	**-0.07**	**-0.10**
FreqMF	**0.05**	1.00	**0.48**	**0.48**	**-0.16**	**0.22**	-0.00	**-0.13**	**-0.25**	**0.07**
Institutional ownership	**0.14**	**0.48**	1.00	**0.69**	**-0.18**	**0.28**	**-0.11**	**-0.22**	**-0.24**	**0.05**
Firm size	**0.10**	**0.48**	**0.69**	1.00	**-0.38**	**0.32**	**-0.02**	**-0.23**	**-0.34**	**0.06**
Book-to-market	**-0.13**	**-0.16**	**-0.18**	**-0.38**	1.00	**0.06**	**-0.15**	**-0.11**	**0.10**	**-0.08**
ROA	**0.07**	**0.22**	**0.28**	**0.32**	**0.06**	1.00	**0.18**	**-0.59**	**-0.59**	**-0.29**
Stock return	0.00	-0.00	**-0.11**	**-0.02**	**-0.15**	**0.18**	1.00	**-0.05**	**-0.17**	**-0.09**
Earnings volatility	**-0.04**	**-0.13**	**-0.22**	**-0.23**	**-0.11**	**-0.59**	**-0.05**	1.00	**0.39**	**0.31**
Loss	**-0.07**	**-0.25**	**-0.24**	**-0.34**	**0.10**	**-0.59**	**-0.17**	**0.39**	1.00	**0.35**
Class action litigation risk	**-0.10**	**0.07**	**0.05**	**0.06**	**-0.08**	**-0.29**	**-0.09**	**0.31**	**0.35**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Nominating Committee Disclosure Requirements on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.0882*** (7.37)	-0.0284*** (2.78)
Institutional ownership		0.8883*** (33.46)
Firm size		0.0903*** (22.31)
Book-to-market		0.0003 (0.04)
ROA		0.1298*** (6.63)
Stock return		0.0220*** (2.61)
Earnings volatility		0.0840*** (4.80)
Loss		-0.2161*** (16.57)
Class action litigation risk		0.2285*** (14.48)
N	21,237	21,237
R^2	0.0025	0.2893

Notes: t-statistics in parentheses. *, **, and *** represent significance at the 10%, 5%, and 1% level, respectively.