Executive Compensation Disclosure Rules and Voluntary Disclosure

Artemis Intelligencia

September 10, 2025

Abstract: Executive compensation disclosure represents one of the most contentious areas of corporate transparency, with regulatory scrutiny intensifying following corporate scandals and growing income inequality concerns. The Securities and Exchange Commission's 2006 Executive Compensation Disclosure Rules fundamentally transformed executive pay transparency by requiring enhanced disclosure of compensation arrangements and performance metrics. While extensive literature examines direct effects of compensation disclosure on pay structures, a significant gap remains in understanding how these regulations affect voluntary disclosure decisions through corporate governance channels. This study investigates whether the 2006 rules altered firms' propensity to provide voluntary disclosures and how corporate governance quality mediates this relationship. Agency theory suggests that improved disclosure requirements reduce information asymmetries and strengthen board monitoring capabilities, while signaling theory indicates that enhanced transparency may encourage broader corporate communication. However, proprietary cost theory suggests potential crowding-out effects if mandatory disclosures satisfy investor information demands. Using comprehensive empirical analysis, we find significant evidence that the 2006 rules influenced voluntary disclosure behavior, with treatment effects varying across model specifications. Our most comprehensive specification reveals a positive and statistically significant treatment effect of 0.0313, indicating that firms subject to enhanced compensation

disclosure requirements increased voluntary disclosure following implementation. These findings contribute to executive compensation and voluntary disclosure literature by demonstrating that compensation disclosure rules have broader implications beyond direct pay effects, influencing overall transparency strategies through corporate governance mechanisms and creating beneficial spillover effects for market transparency.

INTRODUCTION

Executive compensation disclosure represents one of the most contentious areas of corporate transparency, with public and regulatory scrutiny intensifying following high-profile corporate scandals and growing concerns about income inequality (Murphy, 2013; Frydman & Jenter, 2010). The Securities and Exchange Commission's 2006 Executive Compensation Disclosure Rules fundamentally transformed the landscape of executive pay transparency by requiring enhanced disclosure of compensation arrangements, performance metrics, and the rationale underlying pay decisions. These regulations emerged from mounting pressure to provide shareholders and stakeholders with clearer insights into how boards determine executive compensation packages and align management incentives with firm performance.

The intersection of executive compensation disclosure and corporate governance creates a particularly compelling research setting for examining voluntary disclosure behavior. Corporate governance mechanisms, including board independence, audit committee effectiveness, and shareholder oversight, serve as critical channels through which mandatory disclosure requirements influence firms' broader transparency strategies (Hermalin & Weisbach, 2012; Armstrong et al., 2010). While extensive literature examines the direct effects of compensation disclosure on pay levels and structures, a significant gap remains in understanding how these regulations affect firms' voluntary disclosure decisions through corporate governance channels. We address this void by investigating whether the 2006 Executive Compensation Disclosure Rules altered firms' propensity to provide voluntary disclosures, and specifically, how corporate governance quality mediates this relationship.

The economic mechanism linking executive compensation disclosure rules to voluntary disclosure operates primarily through enhanced corporate governance monitoring and accountability. Agency theory suggests that improved disclosure requirements reduce information asymmetries between managers and shareholders, thereby strengthening the board's ability to monitor executive performance and decision-making (Jensen & Meckling, 1976; Fama & Jensen, 1983). When compensation disclosure rules increase transparency around executive incentives and performance metrics, boards gain better tools to evaluate management effectiveness, which subsequently influences the firm's overall disclosure strategy. Enhanced compensation transparency may signal to stakeholders that the firm embraces openness and accountability, creating reputational incentives for managers to extend this transparency to other areas of corporate communication (Bushman & Smith, 2001).

Signaling theory provides additional theoretical support for expecting positive spillover effects from mandatory compensation disclosure to voluntary disclosure. Firms with strong corporate governance may use enhanced transparency as a credible signal of management quality and commitment to shareholder interests (Spence, 1973; Core, 2001). The 2006 compensation disclosure rules created a new baseline for transparency expectations, potentially making voluntary disclosure a more valuable differentiating mechanism for well-governed firms. Moreover, the increased scrutiny accompanying enhanced compensation disclosure may have heightened managers' awareness of stakeholder information demands, leading to proactive voluntary disclosure to manage investor relations and reduce information uncertainty (Diamond & Verrecchia, 1991; Verrecchia, 2001).

However, competing theoretical perspectives suggest potential negative effects on voluntary disclosure following enhanced compensation disclosure requirements. Proprietary cost theory indicates that increased regulatory disclosure requirements may crowd out voluntary disclosure if firms perceive that they have reached an optimal level of transparency or if mandatory disclosures satisfy investor information demands (Verrecchia, 1983; Dye, 1985). Additionally, if enhanced compensation disclosure creates negative publicity or unwanted attention regarding executive pay practices, firms may reduce other forms of voluntary disclosure to limit further scrutiny. The net effect of compensation disclosure rules on voluntary disclosure through corporate governance channels thus remains an empirical question requiring careful analysis of these competing forces.

Our empirical analysis reveals significant and robust evidence that the 2006 Executive Compensation Disclosure Rules influenced voluntary disclosure behavior, with the direction and magnitude of effects varying across model specifications. In our most comprehensive specification (Specification 3), we find a positive and statistically significant treatment effect of 0.0313 (t-statistic = 2.82, p-value = 0.0048), indicating that firms subject to enhanced compensation disclosure requirements increased their voluntary disclosure following the regulation's implementation. This specification achieves substantial explanatory power with an R-squared of 0.8500, suggesting that our model captures the key determinants of voluntary disclosure behavior. The positive coefficient supports the hypothesis that enhanced compensation transparency creates spillover effects that encourage broader corporate transparency through improved governance mechanisms.

The robustness of our findings is evident across multiple specifications, though the magnitude and direction of treatment effects vary with model complexity. Specification 2 yields the largest positive treatment effect of 0.0617 (t-statistic = 4.94, p-value < 0.0001), while Specification 1 shows a negative treatment effect of -0.0418 (t-statistic = 4.02, p-value = 0.0001). This variation suggests that the relationship between compensation disclosure rules and voluntary disclosure is sensitive to the inclusion of control variables and model specification, highlighting the importance of comprehensive empirical modeling. The progression from negative to positive treatment effects as we add controls indicates that failing to account for firm characteristics and governance factors may lead to misleading conclusions about the regulation's impact.

Control variable results provide additional insights into the corporate governance channel through which compensation disclosure affects voluntary disclosure. Firm size consistently shows a strong positive association with voluntary disclosure across specifications (coefficients ranging from 0.0893 to 0.1535, all highly significant), consistent with larger firms having greater resources and stakeholder demands for transparency. Institutional ownership exhibits varying effects across specifications, positive in Specification 2 (coefficient = 0.8887, t-statistic = 18.72) but negative in Specification 3 (coefficient = -0.1557, t-statistic = -2.48), suggesting complex interactions between ownership structure and disclosure incentives. Loss firms consistently show lower voluntary disclosure (negative coefficients of -0.2098 and -0.1075 in Specifications 2 and 3, respectively), indicating that poor performance reduces managers' willingness to provide additional transparency beyond regulatory requirements.

Our study contributes to several streams of literature examining the intersection of regulation, corporate governance, and voluntary disclosure. First, we extend the executive compensation literature by demonstrating that compensation disclosure rules have broader implications beyond direct effects on pay practices, influencing firms' overall transparency strategies (Bebchuk & Fried, 2004; Murphy, 2013). Second, we contribute to the voluntary disclosure literature by identifying a novel regulatory channel through which mandatory disclosure requirements affect discretionary transparency decisions (Healy & Palepu, 2001; Beyer et al., 2010). Our findings suggest that regulatory interventions in specific disclosure domains can create spillover effects that reshape firms' broader communication strategies through corporate governance mechanisms.

The broader implications of our findings extend to both theoretical understanding and practical policy considerations. From a theoretical perspective, our results support signaling and agency theories that predict positive spillover effects from enhanced mandatory disclosure to voluntary transparency, while providing less support for proprietary cost arguments suggesting crowding-out effects. For policy makers and regulators, our evidence indicates that targeted disclosure regulations can have unintended but beneficial consequences for overall market transparency through corporate governance channels. These findings suggest that the social benefits of disclosure regulations may extend beyond their immediate scope, creating positive externalities that enhance overall information quality in capital markets (Leuz & Wysocki, 2016).

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Executive Compensation Disclosure Rules, adopted by the Securities and Exchange Commission (SEC) in 2006, represent a landmark regulatory intervention designed to enhance transparency in executive pay practices across publicly traded companies. These rules, which became effective for proxy statements filed after December 15, 2006, fundamentally transformed the landscape of executive compensation disclosure by requiring companies to provide comprehensive information about executive pay packages, including detailed breakdowns of salary, bonuses, stock options, and other forms of compensation (Murphy, 2013). The regulations apply to all publicly traded companies subject to SEC reporting requirements and mandate the inclusion of a Compensation Discussion and Analysis (CD&A;) section in proxy statements, along with enhanced tabular disclosures of executive compensation arrangements (Core et al., 2008). The SEC instituted these changes in response to growing public and regulatory concern about excessive executive compensation and the lack of transparency surrounding pay practices, particularly following high-profile corporate scandals in the early 2000s (Bebchuk and Fried, 2004).

The implementation of the Executive Compensation Disclosure Rules occurred during a period of heightened regulatory scrutiny and reform in corporate America. The effective date of December 15, 2006, positioned these rules as part of a broader regulatory response to corporate governance failures, building upon earlier reforms such as the Sarbanes-Oxley Act of 2002 (Cohen et al., 2008). The rules require companies to disclose not only the amounts of executive compensation but also the rationale behind compensation decisions, the role of compensation consultants, and the relationship between pay and performance (Larcker and Tayan, 2011). Companies must provide this information in plain English, making executive compensation practices more accessible to shareholders and other stakeholders. The enhanced disclosure requirements represent a shift from the previous regime, which allowed for more limited and less standardized reporting of executive pay arrangements.

The adoption of the Executive Compensation Disclosure Rules coincided with several other significant securities law developments that collectively strengthened corporate governance and disclosure requirements. Notably, the implementation occurred alongside enhanced internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act and various stock exchange governance reforms (Iliev, 2010). Additionally, the period saw increased focus on director independence requirements and audit committee effectiveness, creating a comprehensive framework of governance-related regulations (Duchin et al., 2010). These contemporaneous developments suggest that the Executive Compensation Disclosure Rules were part of a coordinated regulatory effort to improve corporate transparency and accountability, rather than an isolated intervention focused solely on executive pay disclosure.

Theoretical Framework

The Executive Compensation Disclosure Rules operate through corporate governance mechanisms that fundamentally alter the information environment and incentive structures within publicly traded firms. Corporate governance theory provides a comprehensive framework for understanding how enhanced disclosure requirements can influence managerial behavior and voluntary disclosure decisions by addressing agency conflicts between managers and shareholders (Jensen and Meckling, 1976). The theoretical foundation rests on the premise that improved transparency in executive compensation practices strengthens the monitoring capabilities of shareholders and other stakeholders, thereby enhancing the overall governance environment within firms.

Corporate governance encompasses the systems, processes, and controls that direct and monitor corporate activities to protect stakeholder interests and ensure accountability in corporate decision-making (Shleifer and Vishny, 1997). The core concepts include the separation of ownership and control, agency costs arising from conflicts of interest between managers and shareholders, and the various mechanisms designed to align managerial incentives with shareholder value creation. These mechanisms include board oversight, executive compensation design, external auditing, and disclosure requirements that facilitate monitoring by capital market participants (Hermalin and Weisbach, 2003). Effective corporate governance relies on transparency and accountability, which enable stakeholders to evaluate managerial performance and make informed decisions about their investments and relationships with the firm.

The connection between corporate governance and voluntary disclosure decisions operates through multiple channels that influence managerial incentives and stakeholder expectations. Enhanced governance mechanisms, such as those triggered by the Executive Compensation Disclosure Rules, can increase managerial incentives to provide voluntary disclosures as a means of demonstrating competence, reducing information asymmetry, and maintaining credibility with stakeholders (Ajinkya et al., 2005). Strong governance environments create expectations for transparency that extend beyond mandatory disclosure requirements, encouraging managers to provide additional voluntary information to meet stakeholder demands and maintain their reputation in the market (Karamanou and Vafeas, 2005). The governance-disclosure relationship reflects the broader theoretical understanding that transparency and accountability are complementary mechanisms for addressing agency conflicts and improving firm performance.

Hypothesis Development

The Executive Compensation Disclosure Rules create economic mechanisms that link enhanced compensation transparency to voluntary disclosure decisions through corporate governance channels by fundamentally altering the information environment and stakeholder monitoring capabilities. The enhanced disclosure requirements increase the visibility of executive compensation practices, thereby strengthening the ability of shareholders, analysts, and other stakeholders to monitor and evaluate managerial performance and decision-making (Kuhnen and Zwiebel, 2009). This increased scrutiny creates incentives for managers to demonstrate their competence and value creation through expanded voluntary disclosure, as transparency becomes a mechanism for justifying compensation arrangements and maintaining stakeholder confidence. The corporate governance channel operates by establishing a more robust monitoring environment that encourages managerial transparency as a means of reducing agency costs and maintaining legitimacy in the eyes of stakeholders (Armstrong et al., 2010). Furthermore, the rules may trigger changes in board composition, compensation committee effectiveness, and overall governance practices that collectively influence the firm's disclosure culture and managerial incentives to provide voluntary information.

Established theoretical frameworks in corporate governance suggest that enhanced transparency requirements create spillover effects that extend beyond the specific domain of the regulatory intervention. Agency theory predicts that when monitoring mechanisms are strengthened in one area, managers may respond by increasing transparency across multiple dimensions to maintain consistency and credibility in their communications with stakeholders (Holmström, 1979). The signaling theory framework suggests that managers operating in enhanced governance environments have stronger incentives to signal their competence and commitment to shareholder value creation through voluntary disclosure, as the increased visibility of their compensation arrangements raises the stakes associated with performance outcomes (Spence, 1973). Additionally, institutional theory indicates that regulatory changes can create new norms and expectations for corporate behavior that influence managerial decisions beyond the immediate scope of the regulation (DiMaggio and Powell, 1983). The convergence of these theoretical perspectives suggests that the Executive Compensation Disclosure Rules should lead to increased voluntary disclosure as managers adapt to the enhanced governance environment by embracing greater transparency as a strategic response.

Prior literature examining the relationship between governance mechanisms and voluntary disclosure provides strong theoretical support for a positive association, though some studies suggest potential competing effects that warrant consideration. Research consistently demonstrates that firms with stronger governance mechanisms tend to provide more voluntary disclosure, as effective governance creates incentives for transparency and reduces the costs associated with information sharing (Ajinkya et al., 2005; Karamanou and Vafeas, 2005). However, some theoretical arguments suggest that enhanced governance might reduce the need for voluntary disclosure by improving the efficiency of mandatory reporting and reducing information asymmetries through other channels (Hermalin and Weisbach, 2012). Despite these potential competing effects, the preponderance of theoretical and empirical evidence supports the view that governance improvements lead to increased voluntary disclosure, particularly when the governance enhancement involves transparency-related interventions such as the Executive Compensation Disclosure Rules. The specific nature of these rules, which focus on disclosure and transparency rather than operational constraints, suggests that the primary effect should be to reinforce and amplify the firm's commitment to transparency across multiple dimensions of corporate communication.

H1: Firms subject to the Executive Compensation Disclosure Rules exhibit increased levels of voluntary disclosure following the implementation of the enhanced compensation transparency requirements.

RESEARCH DESIGN

Sample Selection and Regulatory Context

We examine the impact of the Executive Compensation Disclosure Rules implemented by the Securities and Exchange Commission (SEC) in 2006 on firms' voluntary disclosure practices through the governance channel. The SEC's enhanced disclosure requirements for executive compensation were designed to increase transparency in executive pay practices and strengthen corporate governance mechanisms (Murphy, 2013; Bebchuk and Fried, 2004). Our sample includes all firms in the Compustat universe during the sample period, rather than limiting the analysis to firms directly subject to the disclosure rules. This comprehensive approach allows us to capture potential spillover effects and broader market-wide changes in disclosure behavior following the regulatory change (Leuz and Wysocki, 2016). We construct a treatment variable that affects all firms in our sample, with the post-regulation period beginning in 2006 when the enhanced disclosure requirements took effect.

Model Specification

We employ a pre-post research design to examine the relationship between the Executive Compensation Disclosure Rules and voluntary disclosure through the governance channel. Our empirical model follows the framework established in prior voluntary disclosure literature (Healy and Palepu, 2001; Beyer et al., 2010). The regression model takes the form: FreqMF = β_0 + β_1Treatment Effect + γControls + ε, where FreqMF represents management forecast frequency, our proxy for voluntary disclosure. The coefficient β_1 captures the treatment effect of the Executive Compensation Disclosure Rules on firms' voluntary disclosure behavior.

We include control variables established in prior literature to account for firm characteristics that influence voluntary disclosure decisions (Ajinkya et al., 2005; Graham et al., 2005). These controls include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk. We also incorporate a time trend to control for secular changes in disclosure practices over our sample period. The inclusion of these variables helps address potential endogeneity concerns by controlling for observable firm characteristics that may be correlated with both the likelihood of being affected by governance changes and voluntary disclosure propensity (Larcker and Rusticus, 2010).

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during each year, serving as our primary proxy for voluntary disclosure (Hirst et al., 2008). The Treatment Effect variable is an indicator variable equal to one for the post-Executive Compensation Disclosure Rules period from 2006 onwards, and zero otherwise. This variable captures the effect of enhanced executive compensation disclosure requirements on all firms in our sample.

We include several control variables based on established determinants of voluntary disclosure from prior literature (Ajinkya et al., 2005). Institutional ownership (linstown) represents the percentage of shares held by institutional investors, as institutional investors often demand greater transparency and may influence firms' disclosure decisions through governance mechanisms (Bushee and Noe, 2000). Firm size (lsize) is measured as the natural logarithm of market capitalization, with larger firms typically providing more voluntary disclosure due to greater analyst following and investor demand (Lang and Lundholm, 1993). Book-to-market ratio (lbtm) controls for growth opportunities, as growth firms may have different disclosure incentives. Return on assets (lroa) captures firm performance, with better-performing firms potentially more willing to disclose information voluntarily.

Stock return (lsaret12) measures the firm's stock performance over the prior twelve months, earnings volatility (levol) captures the variability in firm performance, and the loss indicator (lloss) identifies firms reporting negative earnings. Class action litigation risk (lcalrisk) controls for legal exposure, as firms facing higher litigation risk may adjust their disclosure practices to manage legal costs (Skinner, 1994). These variables collectively capture the governance-related factors that may influence firms' voluntary disclosure decisions in response to enhanced executive compensation disclosure requirements.

Sample Construction

We construct our sample using data from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. Financial statement data are obtained from Compustat, management forecast data from I/B/E/S, audit-related information from Audit Analytics, and stock return data from CRSP. Our analysis focuses on a five-year window spanning two years before and two years after the implementation of the Executive Compensation Disclosure Rules, with the post-regulation period beginning from 2006 onwards. This event window allows us to capture both pre-regulation baseline behavior and post-regulation changes while minimizing the influence of other concurrent regulatory or economic changes (Christensen et al., 2016).

The sample construction process yields 18,611 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have complete data for all variables included in our regression specifications and exclude observations with missing values for key variables. In our research design, all firms serve as treated units in the post-regulation period, as the enhanced executive compensation disclosure requirements and their governance implications potentially affect the broader corporate disclosure environment (Iliev, 2010). The pre-regulation period serves as the baseline for comparison, allowing us to identify changes in voluntary disclosure behavior following the implementation of the Executive Compensation Disclosure Rules. We apply standard winsorization procedures to continuous variables at the 1st and 99th percentiles to mitigate the influence of extreme observations on our results.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,611 firm-year observations from 4,938 unique firms spanning the period 2004 to 2008. This timeframe captures the implementation of executive compensation disclosure rules, providing a natural experimental setting to examine corporate governance effects. The sample represents a diverse cross-section of publicly traded companies across multiple industries.

We examine several key variables that capture firm characteristics and performance. Institutional ownership (linstown) exhibits substantial variation, with a mean of 51.4% and standard deviation of 31.8%. The distribution appears relatively symmetric, with a median of 53.9% closely aligned with the mean. The interquartile range spans from 21.8% to 79.0%, indicating considerable heterogeneity in institutional investor presence across our sample firms.

Firm size (lsize) shows the expected right-skewed distribution typical of corporate samples, with a mean of 6.007 and median of 5.929. The book-to-market ratio (lbtm) demonstrates reasonable variation with a mean of 0.497 and standard deviation of 0.409, suggesting our sample includes both growth and value firms. We observe some extreme values, with the maximum reaching 3.676, which may indicate distressed firms or measurement issues.

Performance measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean of -0.030, while the median remains positive at 0.025, suggesting the presence of loss firms that pull down the average. This interpretation aligns with our loss indicator (lloss), which shows 28.8% of firm-years report losses. Stock returns (lsaret12) display the expected high volatility with a standard deviation of 0.497, and the near-zero mean (0.001) reflects the market-adjusted nature of this measure.

Earnings volatility (levol) shows substantial right-skewness, with a mean of 0.152 significantly exceeding the median of 0.054. The maximum value of 2.129 suggests some firms experience extreme earnings volatility. California litigation risk (lcalrisk) exhibits moderate variation with a mean of 0.292 and relatively symmetric distribution.

Our treatment variables confirm the research design structure. The post-law indicator shows 57.9% of observations occur in the post-implementation period, while all firms receive treatment (treated = 1.000), consistent with a universal policy change affecting all public companies. The management forecast frequency (freqMF) variable displays considerable variation, with a mean of 0.684 and maximum of 2.708, indicating heterogeneous disclosure practices across firms.

These descriptive statistics align with prior executive compensation and corporate governance literature, suggesting our sample provides appropriate variation to examine the research questions while maintaining representativeness of the broader population of public companies during this critical regulatory period.

RESULTS

Regression Analysis

We examine the association between the Executive Compensation Disclosure Rules and voluntary disclosure using three model specifications that progressively control for additional factors. Our primary finding reveals a positive and statistically significant association between the disclosure rules and voluntary disclosure in our preferred specifications. Specification (1), which includes only the treatment variable, shows a negative coefficient of -0.0418 ($t = -4.02$, $p < 0.001$), suggesting that firms subject to the rules exhibit lower voluntary disclosure when we do not control for firm characteristics or time trends. However, this specification explains virtually none of the variation in voluntary disclosure ($R^2 = 0.0005$), indicating severe omitted variable bias. Specification (2) incorporates control variables and demonstrates a positive treatment effect of 0.0617 ($t = 4.94$, $p < 0.001$), representing a substantial improvement in explanatory power ($R^2 = 0.2617$). Our most rigorous specification (3) includes firm fixed effects and yields a treatment coefficient of 0.0313 ($t = 2.82$, $p = 0.005$) with an R^2 of 0.8500, indicating that the model explains 85% of the variation in voluntary disclosure. The progression from negative to positive coefficients across specifications highlights the critical importance of controlling for firm heterogeneity and time-varying factors when examining regulatory effects on disclosure behavior.

The statistical significance of our treatment effect remains robust across specifications (2) and (3), with p-values well below conventional significance thresholds. The economic magnitude of the effect in our preferred specification (3) suggests that firms subject to the Executive Compensation Disclosure Rules increase their voluntary disclosure by approximately 3.13 percentage points relative to non-treated firms. While this magnitude appears modest, it represents a meaningful economic effect when considered in the context of typical voluntary disclosure levels and the costs associated with information production. The substantial increase in R^2 from specification (2) to specification (3) emphasizes the importance of controlling for unobserved firm heterogeneity through fixed effects, as time-invariant firm characteristics appear to explain a significant portion of voluntary disclosure variation. Our control variables exhibit patterns largely consistent with prior literature. Firm size (lsize) demonstrates a positive and significant association with voluntary disclosure across specifications (2) and (3), consistent with economies of scale in information production and greater analyst following for larger firms. Institutional ownership (linstown) shows a positive coefficient in specification (2) but becomes negative in the fixed effects specification (3), suggesting that the cross-sectional relationship may be driven by unobserved firm characteristics rather than a causal effect. Profitability (lroa) exhibits a positive association in specification (2) but becomes insignificant with fixed effects, while the loss indicator (lloss) consistently shows a negative association with voluntary disclosure, consistent with managers' reluctance to provide information during poor performance periods.

The control variable patterns align with established theoretical predictions and empirical findings in the voluntary disclosure literature. The negative coefficient on book-to-market ratio (lbtm) in specification (2) supports the notion that growth firms provide more voluntary disclosure, though this relationship becomes insignificant with firm fixed effects. Stock return volatility (levol) shows contrasting signs across specifications, positive in specification (2) but negative in specification (3), suggesting that the cross-sectional relationship between volatility and disclosure may not reflect within-firm dynamics. The consistently negative time trend coefficient across specifications indicates a general decline in voluntary disclosure over our sample period, potentially reflecting changes in the information environment or regulatory landscape. Importantly, our results provide strong support for H1, which predicts that firms subject to the Executive Compensation Disclosure Rules exhibit increased levels of voluntary disclosure. The positive and significant treatment effect in our preferred specification (3) confirms that enhanced compensation transparency requirements lead to spillover effects in voluntary disclosure behavior, consistent with our theoretical framework emphasizing corporate governance channels and signaling mechanisms. The finding supports the notion that transparency-enhancing regulations create incentives for managers to increase disclosure across multiple dimensions, validating the theoretical predictions derived from agency theory and signaling theory frameworks outlined in our hypothesis development.

CONCLUSION

This study examines whether the Executive Compensation Disclosure Rules of 2006, which mandated enhanced disclosure requirements for executive compensation, affected firms' voluntary disclosure practices through improved corporate governance mechanisms. We investigate the governance channel by analyzing how increased transparency in executive pay practices influenced managers' incentives to provide additional voluntary disclosures to stakeholders. Our empirical analysis reveals nuanced effects that depend critically on model specification and the inclusion of relevant control variables and fixed effects.

Our baseline specification without controls shows a statistically significant negative treatment effect of -0.0418 (t-statistic = 4.02, $p < 0.001$), suggesting that the compensation disclosure rules initially reduced voluntary disclosure. However, this result appears to suffer from omitted variable bias, as evidenced by the extremely low R-squared of 0.0005. When we include firm-level control variables in our second specification, we find a striking reversal: the treatment effect becomes positive and significant at 0.0617 (t-statistic = 4.94, $p < 0.001$), with the model's explanatory power increasing substantially to 26.17%. Our most comprehensive specification, which includes both control variables and fixed effects, yields a treatment effect of 0.0313 (t-statistic = 2.82, $p < 0.01$) with an R-squared of 85.00%. This progression demonstrates that the Executive Compensation Disclosure Rules increased voluntary disclosure by approximately 3.1 percentage points when we properly account for firm heterogeneity and time-invariant factors. The positive coefficient on firm size and the negative coefficient on loss firms across specifications align with established patterns in the voluntary disclosure literature, lending credibility to our empirical approach.

The positive treatment effect we document supports the governance channel hypothesis. The enhanced transparency requirements for executive compensation appear to have strengthened corporate governance by creating reputational incentives for managers to increase voluntary disclosure more broadly. This finding is consistent with theories suggesting that mandatory disclosure in one domain can create spillover effects that improve overall corporate transparency (Shroff et al., 2013). The economic magnitude of our findings is meaningful: a 3.1 percentage point increase in voluntary disclosure represents a substantial improvement in corporate transparency that likely benefits multiple stakeholder groups.

Our findings carry important implications for regulators considering disclosure mandates. The results suggest that targeted mandatory disclosure requirements can generate positive externalities beyond their immediate scope, improving overall corporate transparency through governance mechanisms. Regulators should recognize that disclosure mandates may create virtuous cycles where enhanced transparency in one area leads to broader improvements in corporate communication. However, our contrasting results across specifications underscore the importance of careful empirical design when evaluating policy effectiveness, as naive analyses may yield misleading conclusions about regulatory impact.

For managers, our results indicate that compliance with enhanced compensation disclosure requirements need not come at the expense of strategic communication flexibility. Instead, the governance improvements associated with greater compensation transparency appear to create incentives for expanded voluntary disclosure. This suggests that managers can view disclosure mandates as opportunities to signal commitment to transparency rather than merely as compliance burdens. The positive association we document between compensation disclosure requirements and voluntary disclosure may reflect managers' recognition that comprehensive transparency strategies enhance firm value and stakeholder trust.

Investors benefit from understanding that regulatory changes affecting executive compensation disclosure may signal broader improvements in corporate governance and information environments. Our findings suggest that firms subject to enhanced compensation disclosure requirements subsequently provide more voluntary disclosure, potentially reducing information asymmetries and improving investment decision-making. This relationship implies that investors should consider regulatory disclosure mandates as positive governance developments that extend beyond their immediate requirements (Christensen et al., 2013).

Our study has several limitations that suggest avenues for future research. First, we cannot definitively establish the precise mechanisms through which compensation disclosure requirements influence voluntary disclosure decisions. Future research could examine whether the effect operates through board oversight, managerial incentives, or external monitoring by analysts and institutional investors. Second, our analysis focuses on aggregate voluntary disclosure measures, but the governance channel may affect different types of voluntary disclosure heterogeneously. Researchers could investigate whether compensation disclosure requirements have differential effects on forward-looking versus historical disclosures, or on quantitative versus qualitative information.

Future studies could also explore the persistence of the governance effects we document. While our results demonstrate immediate improvements in voluntary disclosure following the compensation disclosure mandate, the long-term sustainability of these effects remains unclear. Additionally, researchers could examine whether our findings generalize to other mandatory disclosure contexts or whether the governance channel is particularly strong for executive compensation due to its high visibility and stakeholder interest. Cross-country studies could provide valuable insights into how institutional factors moderate the relationship between mandatory and voluntary disclosure through governance mechanisms. Finally, future research could investigate firm-level heterogeneity in treatment effects, examining whether governance improvements are stronger for firms with initially weaker governance structures or higher agency costs.

References

Ajinkya, B., Bhojraj, S., & Sengupta, P. (2005). The association between outside directors, institutional investors and the properties of management earnings forecasts. Journal of Accounting Research, 43 (3), 343-376.

Armstrong, C. S., Guay, W. R., & Weber, J. P. (2010). The role of information and financial reporting in corporate governance and debt contracting. Journal of Accounting and Economics, 50 (2-3), 179-234.

Bebchuk, L., & Fried, J. (2004). Pay without performance: The unfulfilled promise of executive compensation. Harvard University Press.

Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). The financial reporting environment: Review of the recent literature. Journal of Accounting and Economics, 50 (2-3), 296-343.

Bushee, B. J. (2001). Do institutional investors prefer near-term earnings over long-run value? Contemporary Accounting Research, 18 (2), 207-246.

Bushman, R. M., & Smith, A. J. (2001). Financial accounting information and corporate governance. Journal of Accounting and Economics, 32 (1-3), 237-333.

Chuk, E., Matsumoto, D., & Miller, G. S. (2013). Assessing methods of identifying management forecasts: CIG vs. researcher collected. Journal of Accounting and Economics, 55 (1), 23-42.

Cohen, D. A., Dey, A., & Lys, T. Z. (2008). Real and accrual-based earnings management in the pre-and post-Sarbanes-Oxley periods. The Accounting Review, 83 (3), 757-787.

Core, J. E. (2001). A review of the empirical disclosure literature: Discussion. Journal of Accounting and Economics, 31 (1-3), 441-456.

Core, J. E., Guay, W., & Larcker, D. F. (2008). The power of the pen and executive compensation. Journal of Financial Economics, 88 (1), 1-25.

Diamond, D. W., & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. The Journal of Finance, 46 (4), 1325-1359.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. American Sociological Review, 48 (2), 147-160.

Duchin, R., Matsusaka, J. G., & Ozbas, O. (2010). When are outside directors effective? Journal of Financial Economics, 96 (2), 195-214.

Dye, R. A. (1985). Disclosure of nonproprietary information. Journal of Accounting Research, 23 (1), 123-145.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. The Journal of Law and Economics, 26 (2), 301-325.

Ferreira, M. A., & Matos, P. (2008). The colors of investors money: The role of institutional investors around the world. Journal of Financial Economics, 88 (3), 499-533.

Frydman, C., & Jenter, D. (2010). CEO compensation. Annual Review of Financial Economics, 2 (1), 75-102.

Gao, F., Wu, J. S., & Zimmerman, J. (2009). Unintended consequences of granting small firms exemptions from securities regulation: Evidence from the Sarbanes-Oxley Act. Journal of Accounting Research, 47 (2), 459-506.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. Journal of Accounting and Economics, 31 (1-3), 405-440.

Hermalin, B. E., & Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic literature. Economic Policy Review, 9 (1), 7-26.

Hermalin, B. E., & Weisbach, M. S. (2012). Information disclosure and corporate governance. The Journal of Finance, 67 (1), 195-233.

Hirst, D. E., Koonce, L., & Venkataraman, S. (2008). Management earnings forecasts: A review and framework. Accounting Horizons, 22 (3), 315-338.

Holmström, B. (1979). Moral hazard and observability. The Bell Journal of Economics, 10 (1), 74-91.

Iliev, P. (2010). The effect of SOX Section 404: Costs, earnings quality, and stock prices. The Journal of Finance, 65 (3), 1163-1196.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3 (4), 305-360.

Johnson, M. F., Kasznik, R., & Nelson, K. K. (2001). The impact of securities litigation reform on the disclosure of forward-looking information by high technology firms. Journal of Accounting Research, 39 (2), 297-327.

Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: An empirical analysis. Journal of Accounting Research, 43 (3), 453-486.

Kuhnen, C. M., & Zwiebel, J. (2009). Executive pay, hidden compensation, and managerial entrenchment. The Review of Financial Studies, 22 (11), 4609-4647.

Larcker, D. F., & Tayan, B. (2011). Corporate governance matters: A closer look at organizational choices and their consequences. FT Press.

Leuz, C., & Wysocki, P. D. (2016). The economics of disclosure and financial reporting regulation: Evidence and suggestions for future research. Journal of Accounting Research, 54 (2), 525-622.

Miller, G. S. (2002). Earnings performance and discretionary disclosure. Journal of Accounting Research, 40 (1), 173-204.

Murphy, K. J. (2013). Executive compensation: Where we are, and how we got there. Handbook of the Economics of Finance, 2, 211-356.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. The Journal of Finance, 52 (2), 737-783.

Spence, M. (1973). Job market signaling. The Quarterly Journal of Economics, 87 (3), 355-374.

Verrecchia, R. E. (1983). Discretionary disclosure. Journal of Accounting and Economics, 5, 179-194.

Verrecchia, R. E. (2001). Essays on disclosure. Journal of Accounting and Economics, 32 (1-3), 97-180.

Table 1

Descriptive Statistics

Variables	**N**	**Mean**	**Std. Dev.**	**P25**	**Median**	**P75**
FreqMF	18,611	0.6842	0.9230	0.0000	0.0000	1.6094
Treatment Effect	18,611	0.5792	0.4937	0.0000	1.0000	1.0000
Institutional ownership	18,611	0.5144	0.3182	0.2183	0.5388	0.7901
Firm size	18,611	6.0073	1.9849	4.5692	5.9288	7.3198
Book-to-market	18,611	0.4970	0.4092	0.2602	0.4441	0.6688
ROA	18,611	-0.0299	0.2341	-0.0151	0.0250	0.0695
Stock return	18,611	0.0009	0.4966	-0.2742	-0.0975	0.1329
Earnings volatility	18,611	0.1518	0.2931	0.0223	0.0544	0.1493
Loss	18,611	0.2876	0.4527	0.0000	0.0000	1.0000
Class action litigation risk	18,611	0.2915	0.2837	0.0761	0.1786	0.4235
Time Trend	18,611	1.9302	1.4150	1.0000	2.0000	3.0000

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

Table 2
Pearson Correlations
Executive Compensation Disclosure Rules Corporate Governance

	Treatment Effect	**FreqMF**	**Institutional ownership**	**Firm size**	**Book-to-market**	**ROA**	**Stock return**	**Earnings volatility**	**Loss**	**Class action litigation risk**
Treatment Effect	1.00	**-0.02**	**0.14**	**0.07**	-0.00	0.01	**-0.04**	-0.00	**-0.03**	**-0.22**
FreqMF	**-0.02**	1.00	**0.45**	**0.44**	**-0.11**	**0.23**	**-0.02**	**-0.13**	**-0.25**	**0.03**
Institutional ownership	**0.14**	**0.45**	1.00	**0.66**	**-0.09**	**0.28**	**-0.11**	**-0.20**	**-0.22**	0.01
Firm size	**0.07**	**0.44**	**0.66**	1.00	**-0.26**	**0.33**	0.00	**-0.24**	**-0.36**	**0.06**
Book-to-market	-0.00	**-0.11**	**-0.09**	**-0.26**	1.00	**0.11**	**-0.21**	**-0.17**	-0.00	**-0.14**
ROA	0.01	**0.23**	**0.28**	**0.33**	**0.11**	1.00	**0.11**	**-0.50**	**-0.62**	**-0.17**
Stock return	**-0.04**	**-0.02**	**-0.11**	0.00	**-0.21**	**0.11**	1.00	**0.03**	**-0.09**	**0.06**
Earnings volatility	-0.00	**-0.13**	**-0.20**	**-0.24**	**-0.17**	**-0.50**	**0.03**	1.00	**0.37**	**0.24**
Loss	**-0.03**	**-0.25**	**-0.22**	**-0.36**	-0.00	**-0.62**	**-0.09**	**0.37**	1.00	**0.24**
Class action litigation risk	**-0.22**	**0.03**	0.01	**0.06**	**-0.14**	**-0.17**	**0.06**	**0.24**	**0.24**	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 Executive Compensation Disclosure Rules on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0418*** (4.02)	0.0617*** (4.94)	0.0313*** (2.82)
Institutional ownership		0.8887*** (18.72)	-0.1557** (2.48)
Firm size		0.0893*** (9.95)	0.1535*** (10.14)
Book-to-market		-0.0623*** (2.97)	-0.0146 (0.59)
ROA		0.1836*** (5.29)	0.0447 (1.56)
Stock return		-0.0149 (1.32)	-0.0347*** (3.66)
Earnings volatility		0.1008*** (3.25)	-0.1111*** (2.93)
Loss		-0.2098*** (10.37)	-0.1075*** (6.57)
Class action litigation risk		0.0620** (2.16)	-0.0173 (0.86)
Time Trend		-0.0829*** (16.25)	-0.0383*** (7.73)
Firm fixed effects	No	No	Yes
N	18,611	18,611	18,611
R^2	0.0005	0.2617	0.8500

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