

## Financial Disclosure and Stock Market Reaction: Thematic Study of Investors' Concern in Transparency of Corporate Firm

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### Abstract

*The thematic paper explored the relationship between financial disclosure practices and stock market reactions, with a particular focus on investor concerns regarding corporate transparency. The research examined how both financial and non-financial disclosures influenced stock market behavior, investor perceptions, and market efficiency. Drawing on signaling theory, the study emphasized that transparency played a significant role in reducing information asymmetry and building trust between corporate firms and investors. The findings indicated that firms with comprehensive, accurate, and timely disclosures experienced positive stock market reactions, including greater price stability and increased investor confidence. In contrast, selective or delayed disclosures led to negative market reactions, often reflecting heightened uncertainty. Additionally, the paper highlighted the growing importance of non-financial disclosures, particularly environmental, social, and governance (ESG) factors, which shaped investor decisions and stock performance. The study concluded that corporate transparency was not only essential for regulatory compliance but also served as a strategic tool for improving investor relations, enhancing market efficiency, and ensuring long-term business success.*

**Keywords:** Financial disclosure, Stock market, Transparency

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### 1. INTRODUCTION

In today's complex and rapidly evolving financial landscape, the relationship between information and decision-making cannot be overstated. Financial markets thrive on the availability and accuracy of information, which serves as the lifeblood of investor confidence and market efficiency. In both developed and emerging economies, the ability of investors to make rational choices heavily depends on the transparency and reliability of corporate disclosures. Corporate financial disclosure is a critical aspect of modern business operations, serving as a communication bridge between companies and their stakeholders. It encompasses the timely release of relevant financial and non-financial information, enabling shareholders, analysts, regulators, and other market participants to assess a firm's performance and prospects (Healy & Palepu, 2001). Transparent financial disclosure is considered a hallmark of good corporate governance and ethical accountability, promoting trust and reducing information asymmetry.

However, despite regulatory efforts and improvements in corporate reporting standards, concerns persist over the quality, completeness, and timeliness of financial disclosures. Investors often question whether firms provide an accurate representation of their financial health or selectively disclose information to influence market perception (Graham, Harvey, & Rajgopal, 2005). This suspicion is heightened in emerging markets, where regulatory enforcement may be weak and corporate governance structures underdeveloped. Stock markets, being highly sensitive to

information, respond not only to the content of disclosures but also to the manner and timing of their release. Numerous studies suggest that inadequate or misleading disclosure can trigger negative market reactions, while transparent reporting can enhance firm valuation and investor confidence (Bushman & Smith, 2001). The volatility in stock prices following earnings announcements, restatements, or corporate scandals underscores the market's dependence on credible financial information. In regions such as Sub-Saharan Africa, including Nigeria, the issue of financial disclosure assumes added significance due to a historical lack of transparency, limited investor protection, and an evolving financial regulatory environment. Listed companies are often perceived as opaque in their reporting practices, which in turn dampens investor participation and constrains capital market development (Ofoegbu & Okoye, 2006). These conditions highlight a pressing need to explore how investors interpret and react to corporate disclosures within such contexts.

Furthermore, global investors increasingly demand greater transparency in light of financial crises, environmental concerns, and social governance issues. This has led to a broader conception of disclosure that extends beyond financial statements to include ESG (Environmental, Social, and Governance) reporting. Nevertheless, many corporate firms continue to focus primarily on compliance-driven disclosures, often neglecting the strategic value of voluntary and high-quality reporting (Cormier & Magnan, 2007). Amidst these dynamics, investor concerns regarding the credibility of disclosed information remain a critical issue. Whether due to earnings manipulation, selective disclosure, or the use of complex financial instruments, many investors approach corporate disclosures with skepticism. This distrust can lead to underpricing of securities, reduced market liquidity, and weakened investor-company relationships (Leuz & Wysocki, 2016). In the long run, such distrust threatens market integrity and deters both domestic and foreign investments. Although prior research has examined the impact of financial disclosure on market efficiency, firm value, and investor behavior, less attention has been paid to the perceived transparency of such disclosures especially from the standpoint of investor concerns. There is also a lack of empirical clarity on how such concerns manifest in actual stock market reactions, particularly in emerging markets like Nigeria where financial reporting norms and investor expectations are still maturing. Moreover, the increasing sophistication of investors and the digitalization of financial information demand a reevaluation of how firms disclose and communicate value. The evolving expectations of the investment community fueled by real-time data access and global benchmarks necessitate an inquiry into whether current disclosure practices align with investor concerns about transparency and risk. Against this backdrop, this study seeks to examine the intersection between financial disclosure and stock market reaction, with a particular focus on investor concerns about corporate transparency.

## **2. LITERATURE REVIEW**

### **Financial Disclosure**

Financial disclosure refers to the process by which a company communicates its financial performance, position, and relevant operational data to stakeholders, primarily through formal reports and statements. It encompasses both mandatory and voluntary reporting practices that aim to provide investors, creditors, regulators, and the public with information needed to make informed decisions (Healy & Palepu, 2001). At its core, financial disclosure serves the fundamental purpose of reducing information asymmetry between management and external stakeholders. Mandatory financial disclosure is governed by statutory regulations and accounting standards such as the International Financial Reporting Standards (IFRS) or the Generally

Accepted Accounting Principles (GAAP). These disclosures typically include income statements, balance sheets, cash flow statements, and notes to the accounts. Such requirements are designed to ensure consistency, comparability, and transparency across firms and industries (Bushman & Smith, 2001). Regulatory agencies such as the Securities and Exchange Commission (SEC) play a vital role in monitoring compliance and enhancing the credibility of financial reporting.

In addition to mandatory reports, many firms engage in voluntary disclosure, which includes providing forward-looking information, management discussion and analysis, and environmental, social, and governance (ESG) disclosures. Voluntary disclosures are often used as strategic tools to signal firm quality, mitigate investor uncertainty, and attract capital at a lower cost (Verrecchia, 2001). Companies with strong corporate governance structures are more likely to provide extensive voluntary disclosures as a way to demonstrate accountability and foster long-term investor relationships. The quality of financial disclosure is determined by its relevance, reliability, comparability, and timeliness. High-quality disclosure enhances the decision-making ability of users and contributes to the overall efficiency of capital markets (Leuz & Wysocki, 2016). In contrast, poor disclosure practices can lead to misinformation, mispricing of stocks, and reduced investor confidence. This underscores the importance of transparent and comprehensive reporting practices in promoting fair market valuation and financial stability.

### **Non-Financial Disclosure**

Non-financial disclosure refers to the communication of information that is not directly related to a company's financial performance, but which can significantly influence investor perceptions and decision-making. These disclosures often include information on environmental, social, and governance (ESG) factors, which are becoming increasingly important to stakeholders. As investors seek to evaluate the long-term sustainability of firms, non-financial disclosures provide insights into a company's commitment to ethical practices, environmental stewardship, and social responsibility (Eccles et al., 2014). Over the years, the demand for non-financial reporting has grown, as stakeholders, including investors, regulators, and consumers, seek greater transparency on issues beyond traditional financial metrics. The environmental aspect of non-financial disclosure typically involves the communication of a company's environmental impact, including its carbon emissions, waste management practices, and resource usage. Such disclosures help investors assess how well companies manage environmental risks and comply with environmental regulations. According to Branco and Rodrigues (2008), environmental reporting can also signal a company's long-term sustainability strategies, which in turn affects investor trust and confidence. For example, firms that disclose their efforts to reduce carbon emissions or adopt renewable energy sources may attract environmentally-conscious investors, who increasingly view sustainability as integral to a company's future growth and competitiveness.

Social disclosures encompass a wide range of topics related to the company's impact on society, such as labor practices, community engagement, human rights, and customer relations. Social performance is of growing interest to investors, as they recognize that companies with strong social policies and practices tend to foster better relationships with stakeholders, enhancing brand loyalty and reducing reputational risks (Kolk, 2008). Non-financial disclosures on social issues provide stakeholders with critical information about a company's commitment to ethical practices, diversity, and corporate social responsibility (CSR). These disclosures often influence investors' decisions, as companies demonstrating positive social impacts are perceived as more sustainable and capable of generating long-term value. Governance disclosures focus on the leadership and management structures within a company, including information about the board of directors,

executive compensation, shareholder rights, and business ethics. Strong corporate governance is increasingly seen as a predictor of a company's ability to manage risks and deliver value to shareholders (Gompers et al., 2003). Transparent reporting on governance practices can enhance investor confidence, particularly in the context of preventing financial mismanagement or fraud. Research by La Porta et al. (2000) shows that companies with robust governance structures are more likely to attract long-term investors, who prioritize stability and effective decision-making in corporate management.

The importance of non-financial disclosure has grown significantly due to increasing regulatory demands and societal expectations. Regulatory frameworks such as the Global Reporting Initiative (GRI) and the EU Non-Financial Reporting Directive have made it necessary for companies to disclose their ESG performance in a consistent and standardized manner. The growing influence of socially responsible investing (SRI) and environmental, social, and governance (ESG) investing further drives the need for transparent non-financial disclosures. As such, companies that fail to disclose relevant non-financial information risk being viewed as non-compliant or less attractive to ethical investors, which could affect their market value and reputation (Clark et al., 2015).

### **Transparency**

Transparency, in a corporate and financial context, refers to the degree to which a company openly and accurately discloses information about its financial performance, operations, and governance practices. It entails providing stakeholders with clear, timely, and truthful information that enables them to make informed decisions (Bushman, Piotroski, & Smith, 2004). Transparency is a foundational element of accountability and good governance, particularly in publicly listed firms where ownership and control are separated. Corporate transparency goes beyond mere compliance with disclosure regulations; it embodies a culture of openness and integrity in communication. Transparent firms not only share what is legally required but also disclose material information voluntarily to reduce uncertainty and build trust with investors and regulators (Healy & Palepu, 2001). In doing so, transparency serves as a signaling mechanism, indicating a firm's commitment to ethical behavior and long-term value creation.

The importance of transparency is especially pronounced in financial markets, where decisions are driven by available information. Lack of transparency increases information asymmetry, which can lead to market inefficiencies, mispricing of assets, and poor capital allocation (Jensen & Meckling, 1976). Conversely, when firms operate transparently, they reduce the perceived risk among investors, leading to lower cost of capital, improved stock liquidity, and enhanced investor confidence (Diamond & Verrecchia, 1991). In emerging markets like Nigeria, the issue of transparency remains a major concern due to weak regulatory enforcement, governance gaps, and the prevalence of insider practices. This often results in investors relying on informal channels or speculations rather than published reports, thereby undermining market integrity (Ofoegbu & Okoye, 2006). Enhancing corporate transparency in such environments is therefore critical for boosting investor trust and attracting both domestic and foreign investment. In essence, transparency is not just a technical attribute of financial reporting but a broader reflection of corporate ethics, accountability, and governance. It plays a crucial role in shaping investor perceptions, influencing stock market reactions, and maintaining the credibility of financial systems.

## Signaling Theory

Signaling Theory originates from the field of information economics and was developed to address the problem of information asymmetry between parties in a transaction. In the corporate context, it explains how companies convey information to external stakeholders particularly investors through signals that reflect the firm's true value or intentions (Spence, 1973). Because managers typically have more information about a firm's prospects than outside investors, signaling becomes a vital tool to reduce uncertainty and guide decision-making. One of the core premises of Signaling Theory is that certain actions taken by a company such as financial disclosures, dividend payments, or audit quality can serve as credible signals of firm quality. High-quality firms, which have favorable performance or strong future prospects, are more likely to engage in transparent and detailed disclosures to distinguish themselves from lower-quality firms (Ross, 1977). The cost associated with sending these signals is typically lower for high-performing firms and prohibitively high for poor performers, thus making the signal credible.

In financial reporting, signaling is most evident in the voluntary disclosure of information not mandated by regulation. Companies that disclose more than what is required such as detailed forecasts, strategic plans, or ESG data are often perceived as more transparent and trustworthy (Healy & Palepu, 2001). These signals can influence investor perception, stock price, and market reactions, as investors interpret the quality and intent behind the information provided. Moreover, signaling theory provides a useful framework for understanding how markets respond to corporate announcements. Positive signals, such as increased R&D spending or executive shareholding, may lead to a favorable stock market reaction, while negative signals like unexplained changes in accounting methods or opaque disclosures can trigger skepticism or sell-offs (Connelly et al., 2011). Thus, the effectiveness of a signal lies not just in its content, but also in how it is interpreted by the receiver.

## 3. PRIOR STUDIES

Several studies emphasized the influence of financial disclosures on the market value of firms. Marcus et al. (2023) discovered that sustainability disclosures significantly accounted for changes in share values among Nigerian companies, highlighting the economic relevance of transparency. Similarly, Orshi and Yusuf (2023) found that economic and environmental disclosures—along with institutional ownership—had a strong positive impact on firm value. Olaleye et al. (2022) further supported this view, concluding that financial, operational, and social transparency positively influenced firm value, while governance transparency did not exhibit a significant effect.

Empirical findings have demonstrated that investor reactions are often shaped by the quality and content of disclosures. Ekene and Ebere (2021) showed that information disclosure significantly influenced the Nigerian stock market's all-share index. Feuerriegel and Pröllochs (2018) extended this idea by revealing that specific topics such as earnings and credit ratings in financial disclosures generated noticeable abnormal stock returns. Medya et al. (2022) added a qualitative dimension, finding that the semantic tone of earnings calls better predicted stock movements than raw financial metrics. Regulatory frameworks have also played a crucial role in shaping disclosure practices. Abe et al. (2021) found that the adoption of IFRS significantly enhanced shareholder protection in Nigerian firms, suggesting that globally accepted standards foster transparency. Fagbemi et al. (2022) also established that regulatory quality significantly influenced stock market performance in Nigeria, affirming the value of structured oversight in enhancing investor confidence.



The intersection between corporate governance practices and disclosure transparency was another recurring theme. Emmanuel and Maimako (2015) argued that firms with better governance disclosure standards exhibited superior performance, particularly in the banking sector. Likewise, Ologunwa and Oke (2021) assessed shareholder disclosure and transparency, concluding that while transparency is important, excessive or poorly managed disclosure may harm firm performance by highlighting negative aspects that deter investors. Sustainability disclosures and social reporting were seen as key factors in shaping investor sentiment. Emovon and Izedonmi (2022) found that environmental cost disclosure negatively impacted the market value of oil and gas companies, possibly due to the perception of increased operational costs. Conversely, Marcus et al. (2023) and Orshi and Yusuf (2023) viewed sustainability reporting positively, especially when it emphasized long-term economic and environmental value.

The importance of financial transparency in driving investor decisions was reinforced by Ajayi-Owoye et al. (2022), who concluded that high-quality financial reporting significantly affected investment behaviors. Akinola and Akinsulere (2019) found that investors responded positively to earnings per share but less so to dividend per share, suggesting that profitability indicators are stronger signals of firm health. SpringerOpen (2022) added that improving the timeliness and quality of accounting information could significantly reduce information asymmetry and enhance investor decisions. Studies discussed the mechanisms through which disclosures are made and how investors interpret them. Lillo et al. (2012) showed that households and companies reacted more sensitively to news and market disclosures than institutional or governmental investors. Meanwhile, multiple Investopedia entries (2003–2006) outlined how tools like disclosure statements, Form 8-K, and general transparency mechanisms shape investor expectations and market behavior. These sources collectively highlighted that timely, accurate, and easily interpretable disclosures are key in building investor trust and ensuring fair market practices.

### **Common Transparency Issues of Corporate Firms**

One of the most prominent transparency issues in corporate firms is inadequate financial reporting. When companies fail to provide timely, comprehensive, and accurate financial statements, it becomes challenging for stakeholders to assess the company's true financial health. This often manifests in delayed publication of reports, lack of detail in the financial statements, or omission of crucial financial metrics. Such practices not only confuse investors but also foster an environment of information asymmetry. In many cases, companies in developing economies, particularly those not adhering to the International Financial Reporting Standards (IFRS), tend to experience this issue more frequently, undermining the credibility and comparability of financial disclosures (Akinsulire, 2019). As a result, investors and other stakeholders are left in the dark, which can have severe implications for their decision-making.

Closely related to inadequate reporting is the issue of selective disclosure, where firms release favorable information to certain parties while withholding less flattering details. This practice results in an imbalanced distribution of information, skewing the investment landscape in favor of those with privileged access to data. Healy and Palepu (2001) argued that selective disclosure leads to market inefficiency by distorting stock prices and misinforming investors. When negative news is withheld or selectively revealed, it creates a misleading perception of the company's financial status, which undermines the principles of fair and transparent markets. This selective approach often exacerbates information asymmetry, giving certain investors an unfair advantage over others and weakening market integrity. In addition to financial reporting challenges, weak corporate governance structures also contribute to transparency issues. A lack of independent oversight or

ineffective audit committees within a company can open the door for financial misreporting and unethical practices. Inadequate governance often results in poor decision-making and a failure to hold executives accountable for their actions. Ologunwa and Oke (2021) highlighted how the absence of strong governance mechanisms in Nigerian firms, for instance, leads to increased potential for financial manipulation, misstatements, and ethical lapses. Without stringent oversight and well-defined governance frameworks, corporate transparency becomes compromised, making it difficult for investors to trust the company's disclosures.

Furthermore, inconsistencies in sustainability and non-financial reporting add another layer to the transparency challenges that companies face. As the demand for corporate social responsibility (CSR) and environmental, social, and governance (ESG) disclosures increases, many firms fall short in providing consistent and reliable data. In some cases, firms make vague or exaggerated claims about their environmental and social impact, often without proper metrics or third-party verification. Emovon and Izedonmi (2022) observed that companies, particularly in industries like oil and gas, tend to overstate their environmental efforts or provide incomplete data. This inconsistency in sustainability reporting makes it difficult for stakeholders to accurately assess the company's true environmental and social contributions, ultimately damaging its reputation and eroding investor confidence. Inadequate risk disclosure is another common issue that affects corporate transparency. Risk is an inherent part of any business, yet many companies fail to adequately disclose their exposure to various risks, including financial, operational, and geopolitical uncertainties. This lack of transparency around risks leaves investors with an incomplete picture of the company's vulnerability to market changes or external shocks. SpringerOpen (2022) emphasized that failing to disclose risks properly can lead to misinformed decision-making, as investors might not fully understand the potential threats that could impact a company's performance. A more robust and comprehensive risk disclosure would help reduce uncertainty and improve decision-making, allowing stakeholders to evaluate the firm's potential for stability and long-term success.

### **Implication of Corporate Governance of Firm**

Corporate governance plays a crucial role in shaping the transparency, accountability, and overall performance of firms. The quality of corporate governance has significant implications for the firm's operations, financial health, and market reputation. Strong governance structures ensure that companies are managed efficiently and ethically, leading to enhanced stakeholder trust and long-term sustainability. Conversely, weak corporate governance can lead to mismanagement, reduced investor confidence, and financial scandals that may severely harm a company's reputation and financial standing. One of the key implications of effective corporate governance is the enhancement of transparency and accountability. When firms have strong governance mechanisms, such as independent boards, active audit committees, and clear internal control systems, they are more likely to provide accurate and timely financial reports. This transparency allows investors and stakeholders to make well-informed decisions based on reliable data, thus promoting market efficiency. According to Agbo et al. (2021), firms with solid corporate governance structures tend to experience better financial performance and reduced risk of fraudulent activities because of the oversight provided by independent directors and auditors.

Corporate governance also has significant implications for investor confidence. Investors are more likely to invest in companies that exhibit strong governance practices, as they can be assured that the company is being managed in a way that protects their interests. A lack of proper governance, on the other hand, can deter potential investors, leading to decreased access to capital and lower

stock valuations. Studies, such as those by Jensen and Meckling (1976), have shown that well-governed firms tend to enjoy a lower cost of capital because they are perceived as less risky, which directly contributes to their financial stability and growth. Additionally, corporate governance plays a critical role in ensuring that firms operate in an ethical manner, preventing the potential for corruption and financial mismanagement. Effective governance structures help to establish a code of conduct and ethical guidelines, which influence the behavior of executives and employees. In the absence of strong governance, firms may engage in unethical practices, such as accounting fraud or insider trading, which can have severe legal and financial consequences. For instance, the collapse of Enron in the early 2000s, largely due to governance failures, highlighted the catastrophic outcomes of poor governance, leading to significant reforms in corporate governance practices globally. Another implication of corporate governance is its influence on long-term strategic decision-making. Strong governance encourages boards of directors to prioritize long-term value creation over short-term gains, which is essential for sustainable business growth. Good governance structures facilitate better decision-making processes, allowing firms to navigate challenges, pursue innovative opportunities, and align their strategies with stakeholder interests. On the contrary, poor governance may lead to short-termism and risk-taking behavior, which could result in long-term harm to the firm's stability and reputation.

### **Stock Market Reaction to Disclosure Practices**

The relationship between stock market reactions and corporate disclosure practices has been a subject of extensive research, highlighting the impact of transparency on investor behavior and market efficiency. Financial disclosure provides investors with valuable information to assess a company's financial health and prospects, thereby influencing their investment decisions. When firms disclose relevant and timely information, the market can more accurately price their securities, leading to improved market efficiency (Verrecchia, 2001). Research has shown that firms that are transparent in their financial reporting tend to experience positive stock market reactions, as investors view these companies as more trustworthy and less risky (Huang & Lien, 2019). On the other hand, poor or selective disclosure can lead to negative market reactions due to increased uncertainty and information asymmetry. One of the primary ways that stock markets react to disclosure practices is through stock price volatility. When firms release information, particularly earnings reports or other material disclosures, the stock price tends to adjust according to the perceived impact of the disclosed information. If the disclosure aligns with or exceeds market expectations, the stock price often rises. Conversely, if the disclosure reveals unfavorable or unexpected news, stock prices may fall. For example, Ahmed and Courtis (1999) found that firms with timely and comprehensive financial disclosures experience less stock price volatility compared to those with limited or delayed disclosures. This indicates that markets value transparency and respond positively to firms that provide clear and reliable information.

The market's reaction to disclosure practices also reflects the level of trust that investors place in a company's management. Transparent disclosure practices foster trust in the company's leadership and their commitment to delivering accurate financial information. Studies such as those by Lang and Lundholm (1993) suggest that companies with higher disclosure levels, particularly those that follow international reporting standards like IFRS, are viewed more favorably by investors. As a result, these firms are likely to enjoy higher stock valuations and lower cost of capital due to their perceived stability and reduced risk of financial misreporting. In contrast, firms that engage in selective or incomplete disclosures may face skepticism from investors, leading to a decline in stock prices or increased volatility. The timing and frequency of



disclosures also play a critical role in how stock markets react. Timely and regular updates help investors make informed decisions, while delays in disclosing important financial or strategic information can raise concerns about the company's transparency and management integrity. For instance, a study by Karamanou and Vafeas (2005) demonstrated that firms that provide more frequent earnings updates and ensure timely dissemination of information experience a more favorable market reaction, as investors can better anticipate company performance. In contrast, irregular or delayed disclosures tend to generate negative market sentiment, which can result in stock price declines and a lack of investor confidence.

Moreover, disclosure practices related to non-financial information, such as environmental, social, and governance (ESG) disclosures, have gained increasing significance in influencing stock market reactions. Investors are becoming more attuned to the broader impact of firms' operations, and as such, the disclosure of ESG-related information can influence stock prices. According to Eccles et al. (2014), firms that effectively disclose their environmental and social responsibility practices often experience positive stock market reactions, particularly from socially-conscious investors who value sustainability. Conversely, firms that fail to disclose such information or engage in greenwashing may face negative reactions from both investors and the public, resulting in declines in stock valuation.

#### **4. CONCLUSION**

In conclusion, the study highlights the crucial role that financial disclosure practices play in shaping investor perceptions and stock market reactions. Transparent and timely disclosures provide essential information that reduces uncertainty, fosters trust, and helps investors make informed decisions. Firms that prioritize clear and comprehensive disclosures tend to experience more favorable market outcomes, including higher stock valuations and greater investor confidence. Conversely, poor disclosure practices can lead to negative market reactions, increased volatility, and a loss of investor trust, which can ultimately harm a firm's long-term financial performance. This paper also emphasizes the evolving nature of corporate disclosure, particularly in the context of non-financial information such as environmental, social, and governance (ESG) practices. As stakeholders demand greater accountability in these areas, companies that effectively communicate their commitment to sustainability and ethical practices stand to gain competitive advantages in the marketplace. Therefore, firms must recognize that robust disclosure practices are not only regulatory requirements but strategic tools that enhance transparency, build investor loyalty, and ensure long-term success in an increasingly competitive and transparent global market.

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