

# **THE IMPACT OF VOLUNTARY DISCLOSURES ON BID-ASK SPREADS: THE CASE OF CORPORATE STRATEGY**

**Jane Craighead**  
*McGill University*

## **ABSTRACT**

This study investigates the impact of voluntary corporate disclosures about changes in corporate strategy on market transaction costs, namely bid-ask spreads. The paper extends prior research by looking at a voluntary *non-GAAP* disclosure about an event that has financial implications for the investor. A *Change in corporate strategy* increases the level of asymmetric information between the firm and the market. This is reflected in enhanced bid-ask spreads. *Disclosure* about a change in strategy reduces the level of asymmetric information and lowers bid-ask spreads. Research shows that lower spreads are ultimately reflected in a reduced cost of capital for the firm. Disclosure is, therefore, a critical business activity that can be used to enhance the firm's competitive position.

The study uses a management survey to measure changes in corporate strategy over a one year period within a sample of Canadian public companies. Disclosure is also measured through a survey of firm-reported disclosure activity. Market data is obtained directly from the Toronto Stock Exchange. The results support the study's hypotheses and show a positive (*negative*) relationship between the degree of change (*level of disclosure*) and the size of the bid-ask spreads.

This research contributes to existing knowledge in three ways. First, the results of the study provide evidence that disclosure outside the financial statements influences market transaction costs. Second, the study addresses the market impact of a non-GAAP disclosure, namely about corporate strategy. Third, the study explores the effectiveness of a firm-reported survey measure of disclosure.