**Abstract**

Voluntary nonfinancial disclosure of product and business expansion (henceforth, PBE) plans occurs frequently in practice and is an important vehicle by which managers convey corporate information to outsiders, but little is known about how managerial opportunistic incentives affect the choice of such nonfinancial disclosures. This study examines whether managers strategically time, and make selectivity in, their voluntary nonfinancial disclosures for self-serving trading incentives. I find strong and robust evidence that managers manipulate the timing and selectivity of their nonfinancial disclosures to maximize trading profits. Specifically, managers tend to disclose bad (good) news on product or business expansion information prior to purchasing (selling) shares. My results contribute to understanding managers’ use of nonfinancial disclosure strategies for fulfilling personal trading incentives, and should be of interest to boards of directors, which monitor and restrict opportunistic disclosures and insider trading within a firm.

**Motivation of the research**

Motivations:
- Withholding information entails substantively lower detection risk and lower litigation risk, compared to disclosing misleading or biased information, and thus is more prevalent among listed companies for fulfilling various opportunistic incentives. PBE plans may contain rich, heterogenous information involving both good news and bad news. Therefore, voluntary nonfinancial disclosures of PBE plans provide a more powerful setting to examine directly the managerial news-hoarding activities than do management earnings forecasts that pertain to an aggregate number bearing good news, or bad news, only.
- The existing literature on the role of managerial incentives in voluntary disclosures focuses predominantly on management earnings forecasts (e.g., Bushman and Indjejikian, 1995; Frankel et al., 1995; Nee, 1999; Aboudy and Kasznik, 2000; Lang and Lundholm, 2000; Negar et al., 2003; Cheng and Lo, 2006; Brockman et al., 2008; Rogers, 2008; Cheng et al., 2013; Bagnoli et al., 2017), with few concerns about voluntary nonfinancial disclosures. Moreover, this disclosure literature focuses on the litigation costs associated with managerial opportunism, with little regard to reputation costs. Thus, despite of the findings of this literature, it is unclear, and hence an open question, whether managers tend to strategically disclose PBE plans before stock trades to grab more trading gain, when taking into account the reputation costs as well as the differences between management earnings forecasts and PBE disclosures.

**Research question:**
- whether and how insider trading provides managers with incentives to make strategic disclosures of product and business expansion plans to the public
- whether managers tend to selectively release good (bad) news, and withhold (bad) news, on PBE information to inflate (deflate) stock prices at the points when self-serving opportunities arise.

**Disclosure strategy:**

![Disclosure strategy diagram](Image)

**Management earnings forecasts (MEF) vs. Product or business expansion disclosures (NF)**

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**Endogeneity and identification strategies**

Sources of Endogeneity:
- Correlated-omitted variables bias: There might be some unobservable firm characteristics that drive both insider trading decisions and voluntary PBE disclosures.
- Reverse causality: Insider sales (purchases) may be simply a passive response to the increased (decreased) stock price that serves as a “stepping stone” for insiders to maximize their private trading gain from purchasing (selling) stocks at a deflated (inflated) price.

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**Key findings and conclusion**

Managers tend to strategically alter nonfinancial disclosure policies to fulfill self-serving trading incentives.
- Managers tend to release bad (good) news on product or business expansion information prior to purchasing (selling) shares.
- Litigation risk associated with insider sales does not manifest itself in nonfinancial disclosures, typically PBE disclosures, which entail low disclosure risk.

**References**