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Experts or rivals: Mimicry and voluntary disclosure

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ABSTRACT

This study explores the effect of firm experience and competition on individual firms' motivation to imitate the voluntary disclosure practices of reference firms in product markets. Using Spain's newspaper industry from 1966 to 1993, the empirical findings show that the more experienced firms are, the less likely they are to imitate the disclosure practices of other better-informed organizations. Likewise, more experienced firms show a lower propensity to follow the disclosure practices adopted by the firms on their business segment. By contrast, firms operating in more competitive markets have greater incentives to mimic the disclosure behavior of rival organizations. This article concludes that firm experience and the degree of competition in the market are likely to moderate a firm's incentives to imitate the voluntary disclosure practices of other organizations. Furthermore, the results indicate that the effects of these two factors are not mutually exclusive but rather complementary.

1. Introduction

Previous management and marketing research on the imitation of voluntary disclosure, mainly focused on the disclosure of CSR activities, shows that due to institutional forces, firms tend to adopt the practices of their main organizational field (e.g., Comyns, 2016; Frias-Aceituno, Rodríguez-Ariza, & Garcia-Sánchez, 2014; Hahn & Kühnen, 2013; Higgins, Stubbs, & Milne, 2015; Moseñe, Burritt, Sanagustín, Moneva, & Tingey-Holyoak, 2013; Nikolaeva & Bicho, 2011; Rego, Cunha, & Polónia, 2015). However, this research provides limited insight into the potential forces that can moderate this imitation behavior. In particular, it is known that firms tend to follow the voluntary disclosure behavior of other organizations, but there is no clear picture of why they imitate this behavior beyond the notion of institutional factors. This work explores the different nuances of imitation. We specifically show that a firm's incentives to imitate the voluntary disclosure practices of different types of organizations are moderated by informational and competitive incentives.

We examine prior literature addressing the imitation of other business practices (i.e., other than voluntary disclosure) (e.g., Lieberman & Asaba, 2006; Ordanini, Rubera, & DeFillippi, 2008). This literature indicates that firms imitate the practices of other organizations because either they do not have enough information to assess the consequences of those practices (informational reasons) or they want to protect their market positions (rivalry reasons). In the former case, firms tend to imitate other better informed organizations. In the latter case, firms imitate the actions of their direct competitors (e.g., Lieberman & Asaba, 2006; Ordanini et al., 2008). Using this framework, the present study explores whether firm experience and the intensity of product market competition influence an individual firm's incentives to imitate the voluntary disclosure actions of other firms. We claim that firms with more experience are less likely to replicate the disclosure actions of informed organizations or other similar firms in their organizational field. Likewise, firms imitate the disclosure actions of their direct rivals to neutralize the potential risk of losing market share and preserve their status quo in the market. Thus, we claim that firms facing greater competition are more likely to imitate the actions of their direct competitors. To test these notions, this study uses the newspaper industry in Spain during 1966–1993 as an empirical setting. Specifically, the authors examine a firm's decision of whether to disclose its circulation figure to the market (i.e., number of newspapers sold).

As mentioned, this study enriches the previous management and marketing research on the imitation of voluntary disclosure by providing insights about the different forces driving a firm's incentives to imitate. Specifically, this work shows that the imitation of voluntary disclosure practices (similarly to the imitation of business practices) is moderated by informational and competitive incentives. In addition, this study contributes to the scarce accounting literature directly exploring the imitation of voluntary disclosure (e.g., Aerts, Cormier, & Magnan, 2006; Brown, Gordon, & Wermers, 2006; Tse & Tucker, 2010) by showing that the incentives to imitate do not only depend on the

Abbreviations: CSR, Corporate social responsibility; GRI, Global Reporting Initiative; OJD, Oficina para la Justificación de la Difusión; PMC, Product market competition; GNP, Gross national product.

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nature of the information (i.e., bandwagons of positive or negative news) but also are contingent on non-financial factors such as firm experience and competition. Similarly, this study complements the previous literature on the imitation of voluntary disclosure by showing that firms have incentive to imitate the actions of other organizations, to satisfy not only the informational requirements of agents in the financial markets but also the informational needs of their direct customers in the product market. Hence, this study is aligned with accounting academics' suggestions for the need to expand accounting research beyond its current financial–economics approach (e.g., Oler, Oler, & Skousen, 2010).

2. Literature review

Most previous research evidence for the existence of imitation trends in the voluntary disclosure of non-financial information focuses on reporting corporate social responsibility (CSR) practices. Using an institutional approach, this prior research indicates that firms tend to adopt typical practices of their relevant organizational fields (e.g., Aerts et al., 2006; Comyns, 2016; Hahn & Kühnen, 2013; Higgins et al., 2015; Rego et al., 2015) or mimic the disclosure behavior of reference organizations (e.g., Moseñe et al., 2013). In addition, this research stream provides evidence of imitation trends in the adoption of Global Reporting Initiative (GRI) reporting standards (Nikolaeva & Bicho, 2011) and the adoption of integrated sustainability and financial reporting (Frias-Aceituno et al., 2014). Furthermore, some accounting literature provides insights about the imitation of voluntary disclosure practices. Lu and Tucker (2012) investigate the imitation of voluntary disclosure decisions involving non-financial information and incorporate mimetic behavior as a control variable in their model to test the relationship between earnings management and the revelation of strategic plans. Similarly, prior work provides some insights into imitation trends in the voluntary disclosure of financial information. Tse and Tucker (2010) find that the disclosure behavior of peers influences individual firms' disclosure of negative income warnings. Botosan and Harris (2000) include mimetic behavior as a control variable when testing the influence of competition on firms' disclosure behavior. Similarly, Brown et al. (2006) provide evidence of intra-industry herding behavior in capital spending disclosure. Finally, Houston, Lev, and Tucker (2010) use imitation as a control variable to analyze the factors behind earnings guidance. Although useful, this prior work does not provide clear evidence about the different forces driving imitation of disclosure practices of financial and non-financial information. Likewise, it explores the existence of imitation effects in settings in which firms disclose information mostly to satisfy the information needs of financial markets. We aim to enrich this prior knowledge by exploring the drivers of imitation in a setting in which the main users of the information are agents in the product market (e.g., customers and competitors). To accomplish this goal, this study draws from empirical research on the imitation of different firm decisions and practices, such as the existence and dynamics of imitation patterns on entry into new market niches (Debruyne & Reibstein, 2005), adoption of e-commerce (Bhatnagar, Nikolaeva, & Ghose, 2016), adoption of electronic medical records (Angst, Agarwal, Smith, Sambamurthy, & Kelley, 2010), introduction of new product technologies (Giachetti & Lanzolla, 2016), engagement with mergers and acquisitions (Yang & Hyland, 2006), and technological convergence of products (Giachetti & Dagnino, 2015). Refer to Lieberman and Asaba (2006) and Ordanini et al. (2008) for comprehensive reviews of prior theoretical and empirical research on inter-organizational imitation.

3. Theory and hypothesis

3.1. Information-driven imitation of voluntary disclosure practices and firm experience

Firms disclosing information face a trade-off between a positive effect on firm performance because it transmits a positive signal to customers and helps firms differentiate themselves from rivals (e.g., Grossman, 1981; Milgrom, 1981; Su, Zhao, & Zhou, 2014) and a threat to firm performance because rivals could use this information to compete more aggressively (e.g., Verrecchia, 1983). Hence, a firm's decision to reveal its strategic information to the market is likely to depend on the firm's capacity to estimate the net outcome of these two contrary effects. When an organization possesses the information required for a meaningful cost–benefit analysis, then its voluntary disclosure decisions are likely to be more autonomous (i.e., internally generated). Previous research indicates that a firm's capacity to estimate the outcome of a practice is a positive function of its knowledge of the market, and more specifically, its prior experience performing that specific practice (e.g., Giachetti & Dagnino, 2015; Haunschild & Miner, 1997; Yang & Hyland, 2006). This notion suggests that more knowledgeable and experienced firms are more likely to make internally reasoned voluntary disclosure decisions, while less knowledgeable and experienced organizations, in deciding whether to disclose information, might need to seek alternative decision-making mechanisms, such as imitating the disclosure actions of other organizations in the market (e.g., Lieberman & Asaba, 2006). To cope with their lack of information and minimize the risk of making wrong decisions, firms mimic the disclosure practices of other well-informed or expert organizations or the practices considered usual by other firms operating within the same strategic group (e.g., Haunschild & Miner, 1997; Nikolaeva, 2014; Ordanini et al., 2008). For the purposes of this study, we consider organization size as conferring higher status on firms in terms of expertise in disclosing information. Larger firms might have more resources to analyze the market, enabling them to make more informed decisions (e.g., Gimeno, Hoskisson, Bea, & Wan, 2005; Haunschild & Miner, 1997). Alternatively, firms might imitate the actions of similar organizations in their organizational field (e.g., Terlaak & Gong, 2008) in order to follow the standard and acceptable practices of their relevant organizational field or industry (e.g., Dimaggio & Powell, 1983).

This theoretical rationale indicates that an individual firm's incentives to imitate the disclosure behavior of other players in the market (i.e., larger firms or similar organizations in their field) are likely to depend on the firm's capacity to evaluate the outcomes of disclosure. As firms with more experience are likely to have more information and better knowledge about the consequences of this practice, we expect individual firms with more experience to show a lower tendency to imitate the disclosure behavior of other organizations. Thus, we propose the following hypothesis.

H1a. An individual firm's propensity to imitate previous disclosure practices of expert organizations decreases with the firm's level of experience.

H1b. An individual firm's propensity to imitate previous disclosure practices of other similar organizations (i.e., rivals or non-rivals) decreases with the firm's level of experience.

3.2. Rivalry-driven imitation of voluntary disclosure practices and competition in the product market

Regardless of its uncertainty about the consequences of disclosure, a firm might imitate the disclosure behavior of its rivals to maintain its relative competitive position in the market (Lieberman & Asaba, 2006). Following rivals' actions acts as a mechanism for neutralizing this threat and for keeping a firm's relative competitive market position constant (Knickerbocker, 1973). In other words, when competition is the main driver of imitation, firms frame the non-imitation strategy as a threat to their performance and imitate the behavior of competitors to neutralize that threat (e.g., Nikolaeva, 2014) and preserve their status quo in the market (e.g., Semadeni & Anderson, 2010). This study claims that the existence and strength of this type of imitation effect is likely to be contingent on the intensity of the competition faced by firms in the