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Business

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The disclosure of vital information is important for the evaluation of the progress of a firm by the investors and shareholders. It helps companies to draw investments and remain appealing to clients, shareholders and clients. However, for some specific reasons most firms feel reluctant to disclose information their expenditure and revenue. A firm that does not have specific reports about its operation will be reluctant to provide information about its revenue and costs. This paper will focus on some of the reasons why such organizations do not feel at ease releasing information on how much they make and spend to the lenders (Baye, 2009).

Reasons for Non-Disclosure of Information

Some organizations fear disclosing income and expenditure information to the lenders because of the managerial intentions. Apparently, lending organizations need structured managerial arrangements as a requirement by organizations before lending. When a firm has information that seems to be soft and non-verifiable about its managerial intentions, it will be reluctant to disclose the information for fear of losing on lending. For instance, in a situation where a firm intends to assume a new approach of business, it will not reveal this information until it is verifiable. This has the implication of tainting the credibility of the organization. Weak information on their previous expenditure and earnings can work against the company in terms of scaring away lenders(Brown, 1999).

In other firms, the managerial intentions are open and futuristic. By disclosing this information to the banks, the firm will get information about its real and exact financial position. There is a belief that the information disclosed to lending institutions on their income and expenditure exposes the organization's financial weaknesses to the bank. In this regard, some firms fear that divulging information sensitive to their organizations to the banks will decrease their competitive advantage because their competitors will pick up income and expenditure flaws about its financial position. Yet in some other cases, information is direct formulations of the payment structures of employees by the firm. Poor payments will likely attract questioning by lenders. Besides, the leakage of this information can be detrimental to the financial progress of the organization. The nature of information on managerial intention sometimes makes it a challenge for organizations to disclose their information to outsiders (Fu, 2010).

Disclosure of information by firms to lenders is prone to outside market regulations, legislations and accounting norms as a regulatory oversight. Some lending firms enforce these regulations in a coercive nature. This necessitates parent firms to withhold some information from lenders in a bid to protect its interests. For instance, information about the payment structure of employees provided to lenders can encourage labor unions to carry out demonstrations if leaked. Yet other organizations are run by informal rules that are extracted by the customs and culture of the firm. In most cases, these cultures lack efficient and elaborate channels through which information can be disclosed to the lenders (Fu, 2010).

Organizations that depend on the advice professionals such as accountants, at times, tend to receive wrong advice on the disclosure conditions and rules to lenders. This is because these professionals sometimes advise the management of firms to normalize their rules on application for disclosure.

However, this process is full of complexities whose results include delays and confusion on disclosure. Additionally, disclosure rules contribute to limiting some industries from disclosing their information to the public. For instance, utility companies are required by law to only pass some information to the lenders, but not all (Baye, 2009).

The nature of the market forces in an operating environment will make a company reconsider its decision of disclosing some information to the banks and credit institutions. Some information will affect the reputation of an organization and its managers and, therefore, reduce its income. When such idea is identified, the firm will most likely withhold its information from lenders. Further still, disclosing some information to lenders also comes at a cost. It involves a whole array of activities beginning with preparing the financial statement and then analyzing it. This information is a mandatory requirement of most lending institutions. These activities require monetary expenditures that must be incurred by both the firm and lending institution (Fu, 2010).

Some organizations have organizational structures that may hinder the disclosure of their income and expenditure information to lenders. The structures are based on the culture, strategies and politics within the organizational setting. In a case where these structures tend to conflict with the information should be disclosed, then the organization will reconsider its aim for disseminating such information. Besides, the character of the person to circulate the information has a considerable effect on the decision of information disclosure. An opportunistic character will likely disclose information while a conservative character will withhold information intended for disclosure (Baye, 2009).

Conclusion

Most organizations cannot survive without lenders. In this regard, the accomplishment of any firm depends on how it governs itself, including disclosing relevant information to its lenders. This makes good governance to form the foundation upon which mutual trust among clients, managers, shareholders and suppliers is built. Disclosing governance information to all lenders is of crucial and strategic importance. Firms must be ready and willing to restructure their management and disclose the relevant information required by lending institutions in accordance with the governing laws and regulations.

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