

Financial Reporting Regulation and Corporate Non-Financial Misconduct

ABSTRACT

We investigate whether financial transparency is associated with corporate non-financial misconduct in the United Kingdom. Using reporting regulations that allow small firms to withhold their income statement from public filings and enforcement actions against firms by government regulators, we find that firms voluntarily disclosing profitability have significantly lower misconduct rates. Consistent with proprietary costs motivating non-disclosure, we observe that profitable firms are more likely to withhold this information. To address static reporting policies, we examine a 2016 regulatory threshold increase and observe that firms shifting from mandatory reporting to withholding their income statements exhibit higher misconduct rates. Finally, the negative association between disclosure and misconduct is weaker for subsidiaries of public firms, as these subsidiaries inherently face higher external scrutiny. This association remains robust to the presence of external audits and propensity score matching. Overall, our findings suggest that small private firms may strategically exploit reporting exemptions to operate in a low-visibility environment, thereby shielding operations from scrutiny and facilitating misconduct.

Keywords: Disclosure, Listing Status, Regulation, Safety, Violation Tracker

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1. Introduction

Regulatory violations relating to workplace safety, labor protections, and environmental standards represent a critical form of corporate misconduct, carrying substantial social and economic consequences. In the United Kingdom (UK), work-related injuries and illnesses cost an estimated £22.9 billion annually, and high-profile enforcement actions, such as the £5 million penalty imposed on Valero Energy UK following the Pembroke refinery explosion, highlight the severe risks associated with non-compliance. Despite the importance of these outcomes, less is known about how private firms' information environments shape their propensity to engage in such violations. On one hand, financial transparency can increase external scrutiny, thereby deterring misconduct and strengthening incentives to comply with regulatory standards (Healy & Palepu, 2001). On the other hand, disclosure imposes proprietary and reputational costs, particularly for highly profitable firms facing intense competition, creating strong incentives to withhold information (Verrecchia, 1983; Dedman & Lennox, 2009). If firms withhold information simply to protect legitimate competitive advantages, this opacity may be entirely benign and unrelated to non-financial misconduct. In fact, because withholding firms are often highly profitable and well-resourced, they may have less incentive to cut corners on safety, potentially resulting in fewer violations.

Furthermore, recent research suggests that the burden of financial reporting itself can adversely affect firms' compliance with non-financial regulations. For example, Giese and Heese (2024) show that the adoption of SOX Section 404 increased non-financial violations because compliance with financial regulation diverted managerial attention and resources away from operations. Viewed through this lens, withholding financial statements could actually improve

non-financial compliance by freeing up managerial resources to focus on workplace safety and environmental standards. However, an alternative perspective is that withholding financial information—regardless of the initial motivation—plunges the firm into a low-visibility environment. This opacity may inadvertently, or strategically, shield operations from external monitors, lowering the expected costs of misconduct and facilitating regulatory violations. Given these competing theoretical predictions, whether reduced financial transparency is associated with higher or lower corporate non-financial misconduct remains an open empirical question.

To test these competing predictions, the UK provides an ideal setting due to its distinct financial reporting regulations for private firms. While all firms are required to prepare and file annual accounts with Companies House, small firms are permitted to file simplified (so-called filleted) accounts that omit the profit and loss statement from public filings. Although these firms prepare income statements internally, they have broad discretion to withhold performance information from external stakeholders. We propose that firms are more likely to engage in misconduct when they utilize this discretion to remain opaque. To examine the relationship between financial transparency and corporate misconduct, we primarily compare firms that voluntarily disclose their income statement with those that withhold it.

We find a consistent negative association between income statement disclosure and regulatory violations. Firms that voluntarily disclose their income statement are significantly less likely to incur violations and exhibit a lower number of violations. These findings are robust to reweighing the sample using entropy balancing and when we restrict the analysis to matched samples based on propensity score matching, alleviating concerns that observable differences between disclosing and non-disclosing firms drive the results. Taken together, the evidence suggests that reduced financial transparency is systematically associated with higher levels of

corporate misconduct. However, empirically isolating the causal effect is challenging because reporting choices are often static and endogenous. To address these concerns, we exploit a 2016 regulatory threshold increase that expanded eligibility for filing filleted accounts, allowing a new cohort of previously mandatory filers to omit their income statements. Focusing on this subsample, we find that firms shifting from mandatory reporting to withholding their income statements experience a significant increase in both the likelihood and frequency of regulatory violations. This dynamic shift helps isolate the role of opacity, suggesting the relationship is not driven solely by entrenched and static disclosure policies. Finally, we explore cross-sectional variation in this relationship by examining the ownership structure of the private firms. While our primary sample consists of small entities filing as private companies, some are subsidiaries of public parents. Prior research consistently finds that public firms face stronger external monitoring, more intense media scrutiny, and greater reputational pressures than private firms (Ball & Shivakumar, 2005; Hope, Thomas & Vyas, 2013; Leuz & Wysocki, 2016), leading to fewer workplace-related violations (Liang et al., 2023). Because these subsidiaries are subject to the integrated internal controls, consolidated audit requirements, and overarching reputational risks of their parent companies, they are less shielded by local financial opacity. Accordingly, we find that the disciplinary effect of voluntary financial disclosure is significantly diminished for private firms that are subsidiaries of publicly listed groups.

Overall, our evidence suggests that visibility is the central mechanism linking disclosure and compliance: firms that withhold their income statements operate in a lower-visibility environment and violate more often. Consistent with this mechanism, the disciplining effect of disclosure weakens for subsidiaries of public firms, which already face external scrutiny regardless of their own filing choices. While previous research on private firm disclosure has largely focused

on proprietary costs related to product market competition (Dedman & Lennox, 2009) or the mitigation of information asymmetry to secure trade credit (Ceustermans et al., 2017), our study highlights the distinct role of public visibility in disciplining compliance behavior. It is important to study private firms in this context because they constitute the backbone of most economies worldwide (e.g., Minnis, 2011; Vanstraelen & Schelleman, 2017; Lisowsky & Minnis, 2020).

This paper makes three contributions. First, we introduce a new insight into the literature on disclosure behavior of private firms (e.g., Breuer, Leuz & Vanhaverbeke, 2024; Gassen & Muhn, 2025) which is the selective concealment of performance around regulatory violations, consistent with theories of proprietary costs and strategic withholding (Verrecchia, 1983). Second, we bridge the literature on public versus private firm monitoring (Ball & Shivakumar, 2005; Hope et al., 2013) with the workplace safety and regulatory-compliance literature (Cohn & Wardlaw, 2016; Christensen et al., 2017; Caskey & Ozel, 2017). Third, our findings inform policy debates about the appropriateness of small-firm reporting exemptions in the UK and EU. In particular, we show that filleted accounts are not merely an administrative simplification but can be used opportunistically to mask reputationally damaging combinations of outcomes. Our study is timely as the reporting regime we study for small firms is being abolished under the Economic Crime and Corporate Transparency Act as of 2027, and all small firms will be required to file an income statement.

The rest of the paper is organized as follows. Section 2 provides an overview of the theory and literature and develops our hypotheses. Section 3 describes the setting and sample together with the empirical. Section 4 presents the empirical results and section 5 concludes the paper by discussing the implications of our findings for research and practice.

2. Theoretical Background and Prior Literature

2.1 Disclosure Incentives and Strategic Withholding

Private firms inherently operate in an environment with significantly lower disclosure requirements and weaker external monitoring compared to their public counterparts (Hope et al., 2013). This structural opacity creates an information asymmetry that limits stakeholder oversight. While reduced reporting requirements for small firms are often justified by the argument that their financial information has fewer external users and disproportionately high preparation and proprietary costs (Saerens & Ceustermans, 2021), this lack of mandatory disclosure carries economic consequences. Importantly, environments characterized by weak monitoring and low scrutiny serve as fertile ground for corporate misconduct (Amiram et al., 2018). While robust external monitoring is a critical mechanism for detecting corporate fraud and irregularities (Dyck et al., 2010), the absence of such scrutiny means mitigating stakeholder violations heavily depends on internal mechanisms like corporate culture that are particularly vulnerable in highly opaque settings (Zaman, 2024). In low visible environment, managers are better positioned to extract private benefits and shield themselves from the ethical and reputational consequences of their actions (Minnis & Shroff, 2017).

Firms do not operate in this low-visibility environment passively; prior literature demonstrates that they actively manage their regulatory profiles to maintain opacity. The foundational disclosure model of Verrecchia (1983) posits that firms strategically withhold information when disclosure imposes high proprietary costs or reveals negative news. In practice, private firms are known to strategically manage their size downward specifically to minimize strictly proportional reporting and publication costs, thereby securing exempt status (Bernard et al., 2018).

In the UK, the “filleted accounts” regime allows small private companies to omit their income statement from public filings at Companies House. While qualitative evidence suggests some small enterprises use abbreviated accounts simply to reduce the administrative burden of disclosed information (Kitching et al., 2013), other studies indicate highly strategic motives. Firms withhold financial data, often citing perceived competitive disadvantages, but this opacity is frequently utilized to mask underlying performance realities (Dedman & Lennox, 2009). Conversely, voluntary disclosure is primarily utilized when it directly benefits the firm, such as mitigating information asymmetries with suppliers (Ceustermans et al., 2017). Together, these findings illustrate that firms actively exploit flexible reporting rules to control the narrative available to external stakeholders and mitigate the fallout of sensitive events (Healy & Palepu, 2001; Ball & Shivakumar, 2005).

We propose that this strategic withholding is directly linked to an increased likelihood of regulatory violations, such as workplace safety breaches, labor disputes, and environmental infractions. Such violations carry significant legal and reputational penalties. The reputational loss associated with corporate misconduct is often severe and heavily dependent on stakeholder perceptions of managerial culpability (Karpoff & Lott, 1993; Murphy, Shrieves, & Tibbs, 2009).

Importantly, a firm's financial performance at the time of a violation can amplify this perceived guilt. If a firm exhibits strong profitability while simultaneously engaging in regulatory non-compliance, stakeholders are more likely to interpret the violation as exploitative cost-cutting or deliberate negligence. This suggests the firm possessed the resources to prevent the breach but chose not to. To mitigate this amplified reputational damage, firms have strong incentives to suppress their performance signals. By withholding the income statement, firms effectively shut out the external monitors critical for detecting misconduct (Dyck et al., 2010), preventing

stakeholders from observing the simultaneous occurrence of profitability and ethical breaches. Furthermore, this deliberate financial opacity reduces accounting comparability with peers, effectively stifling the inter-firm learning that has been proven to significantly reduce environmental and stakeholder violations (Chircop et al., 2025). Given the propensity of private firms to utilize reporting exemptions to "hide in the dark," we expect that the strategic election of financial opacity shields illicit behavior. As such, we formulate the first hypothesis as follows:

H1: Small private firms that withhold their income statements from public disclosure are more likely to incur regulatory violations than firms that disclose them.

2.2 The Moderating Effect of External Scrutiny

While public ownership introduces intense external monitoring, it also exposes firms to capital market pressures that could theoretically increase, rather than decrease, misconduct. Public firms often face rigid expectations to meet short-term earnings targets (Stein, 1988; Asker, Farre-Mensa & Ljungqvist, 2015). These short-term pressures can incentivize managers to engage in real earnings management (Haga, Höglund, & Sundvik, 2018) or reduce investments in long-horizon activities such as worker safety, training, and compliance infrastructure (Cohn & Wardlaw, 2016). Consistently, empirical evidence demonstrates that firms under severe earnings pressure exhibit higher workplace injury rates (Caskey & Ozel, 2017). If public parent firms pass these short-term performance pressures down to their subsidiaries, being part of a public group could theoretically exacerbate misconduct, making the subsidiary's own financial disclosure a critical deterrent.

However, an opposing view suggests that the severe reputational costs and intense regulatory scrutiny associated with public markets dominate these short-term pressures. Public firms face extensive capital-market scrutiny and a wider set of external stakeholders, including analysts, institutional investors, and the media (Ball & Shivakumar, 2005; Hope, Thomas & Vyas, 2013; Leuz & Wysocki, 2016). Importantly, this scrutiny is not isolated at the parent level. Public parent firms often impose stricter internal controls, standardized compliance systems, and comprehensive reporting frameworks on their subsidiaries to protect the parent's reputation and ensure the integrity of consolidated financial reporting (Christensen et al., 2017; Liang et al., 2023).

Assuming the monitoring and governance spillovers from the public parent dominate short-term earnings pressures, private subsidiaries of public firms inherently operate in an elevated-visibility environment. Consequently, the *marginal* disciplinary effect of a subsidiary's standalone financial disclosure should be diminished. For a standalone private firm, withholding the income statement effectively shields its operations from public view, facilitating misconduct. In contrast, for a public subsidiary, the parent's consolidated reporting, external audits, and group-wide compliance controls provide strong alternative mechanisms of monitoring. Therefore, we expect the disciplinary effect of voluntary disclosure to be less pronounced for these entities. This leads to our next hypothesis:

H2: The negative association between income statement disclosure and corporate misconduct is weaker for private firms that are subsidiaries of publicly listed companies.

3. Research design

3.1 Empirical Setting and Data

We use the UK as our empirical setting for two reasons. First, the UK corporate sector includes many public firms as well as millions of private firms, enabling a broad comparison of regulatory compliance across ownership types. Second, the UK Companies Act allows small private firms to file filleted accounts at the Companies House, omitting their income statement from public disclosure. This regulatory feature provides a natural opportunity to examine strategic nondisclosure after adverse events such as workplace-safety or employment-related violations. Specifically, under the Companies Act 2006 and subsequent regulations, private firms that meet at least two of three size thresholds for turnover (£10.2m), balance sheet total (£5.1m), and employee headcount (50) are classified as small. These firms may prepare simplified financial statements and benefit from exemptions from statutory audit, provided they still deliver full statutory accounts to shareholders and His Majesty's Revenue and Customs (HMRC) as part of their corporation tax return. A key feature of this regime is the distinction between what must be prepared and what must be filed publicly. Small firms can prepare full accounts for members (including a complete profit and loss account) and then “fillet” those accounts for public filing. Filleted accounts allow managers to omit the profit and loss account and, in many cases, the directors’ report from the version submitted to Companies House, while still complying with statutory requirements. Our research exploits this disclosure choice to study the determinants and consequences of opacity in private firm reporting. We compare firms that make maximum use of the filleting option to other private firms that voluntarily submit their profit and loss account. Because the eligibility thresholds for the small entity regime is clearly defined in statute and regularly updated by regulation, we can precisely identify the population of firms that could

suppress their income statement yet choose not to do so. Previous research has largely concentrated on a previous reporting regime in the UK where small firms were allowed to omit sales and cost of sales information from the income statement using so-called abbreviated accounts (e.g., Dedman & Lennox, 2009). Filleted accounts is a filing option and was introduced for periods beginning in 2016. As of 2027, this regime will be abolished under the Economic Crime and Corporate Transparency Act and all small firms will be required to file accounts including profit and loss.

We obtain financial statement data and ownership information from Moody's Orbis database. We combine this with data on regulatory violations from Violation Tracker UK, which consolidates enforcement actions from more than 80 bodies, including the Health and Safety Executive (HSE), the Employment Tribunal system, the Environment Agency, and other labor- and safety-related regulators. Violation Tracker starts coverage in 2016, so that is when our sample begins. We match violations to Orbis records using company names and identifiers in Companies House. The data together with the institutional setting make the UK uniquely suited for studying the intersection of compliance, visibility, and disclosure.

Table 1 details the construction of our primary datasets. In Panel A, we begin with the comprehensive Orbis database for UK public and private firms with at least £1 million in total assets, covering the period 2016–2023. This initial retrieval yields 3,175,186 firm-year observations for 520,214 distinct firms.

We first exclude observations from the banking and insurance industries (SIC codes 6000–6099 and 6300–6499), reducing the sample by 53,141 firm-years. We further restrict the sample to firm-years meeting the size criteria for "small" entities, specifically those with no more than £10.2m in turnover, £5.1m in total assets, or 50 employees, to concentrate on firms eligible to file

filleted accounts. To focus strictly on the reporting exemptions available to smaller entities, we remove all medium, large, and publicly listed firms, resulting in a reduction of 1,070,145 firm-years. After eliminating an additional 788,143 observations due to missing control variables, our final Small Private Firm Sample consists of 1,263,757 firm-year observations representing 285,711 distinct firms.

Panel B outlines the misconduct data. We collected all firm records in the Violation Tracker UK database, resulting in an initial match of 61,998 firm-years across 53,036 firm records. After requiring full data for our regression controls and primary independent variables, we arrive at a final Violation Tracker Sample of 33,786 firm-years and 29,140 firms. This sample forms the basis for our analysis of corporate misconduct, which serves as our primary dependent variable.

[TABLE 1 HERE]

3.2 Empirical Models and Variables

To analyze the relationship between financial transparency and corporate misconduct among private firms, we estimate the following baseline model:

$$Violation_{it} = \alpha + \beta DISCLOSE_{it} + CONTROLS_{it-1} + \varepsilon_{it} \quad (1)$$

The dependent variable is based on measures of corporate misconduct obtained from the Violation Tracker UK database, building on the modeling frameworks developed by Cohn and Wardlaw (2016) and Liang et al. (2023). We utilize two primary measures: *NUMBER*, representing the total count of regulatory violations recorded for the firm during the year, and *FINED*, a binary indicator equal to 1 if the firm received at least one monetary fine during the year, and 0 otherwise. Christensen et al. (2017) demonstrate that the Poisson distribution effectively captures infrequent, discrete outcomes such as regulatory citations and workplace injuries. Consistent with this insight, we estimate the incidence of violations using both ordinary least squares (OLS) and Poisson regressions, alongside logistic (Logit) models to ensure the robustness of our results.

The primary independent variable of interest is *DISCLOSE*, a binary indicator equal to 1 if the small private firm voluntarily discloses its income statement (choosing not to utilize the UK reporting exemptions for small firms), and 0 otherwise. This variable captures the firm's degree of financial transparency, where a negative coefficient on the variable would indicate that firms operating in a higher-visibility environment exhibit lower rates of misconduct. We also include *PUBLIC*, a binary variable equal to 1 if the firm operates as a subsidiary of a publicly traded company, which allows us to isolate the inherent external scrutiny effects associated with being part of a listed group.

To isolate the effect of disclosure on violations, we include a comprehensive set of lagged, firm-level control variables. *SIZE*, measured as the natural logarithm of total assets, accounts for the fact that larger firms inherently attract more regulatory scrutiny and are more likely to commit recorded violations. *LEVERAGE*, defined as the ratio of total debt to total assets, captures financial risk and external monitoring from creditors. Because our sample includes firms with filleted accounts that lack traditional income statements, we use $\Delta EQUITY$, the change in shareholders' funds scaled by total assets, as an estimated proxy for profitability and operational success. *GROWTH*, the total asset growth rate, is included because high growth may signal aggressive expansion strategies that stretch compliance resources or increase risk-taking behavior. We control for the firm's asset structure using *TANGIBILITY* and *INTANGIBILITY* (tangible and intangible assets divided by total assets, respectively) to account for inherent workplace risks and the collateral base available to satisfy penalties. Furthermore, *LIQUIDITY*, measured by the current ratio, and *NONCURRENT_LIA*, capturing long-term financial obligations, account for financial constraints that may influence underinvestment in compliance systems. Finally, *AGE* controls for

firm maturity and compliance experience, while *NO_SHAREHOLDERS* controls for ownership dispersion.

Our regressions also include industry fixed effects to control for unobserved, time-invariant sector characteristics, such as regulatory oversight intensity and baseline hazard exposure, that may jointly influence disclosure choices and violation propensity. Additionally, we incorporate year fixed effects to absorb macroeconomic cycles, changes in enforcement stringency, and time-varying shocks, thereby mitigating omitted-variable bias. To further ensure the robustness of our findings and address potential endogeneity in the disclosure decision, we implement propensity score matching (PSM) to re-estimate our models within a matched sample of disclosing and non-disclosing firms.

3.3 Descriptive Statistics

Table 2 presents the distributional properties of the study variables. The full sample (Panel A) reveals that corporate misconduct occurs infrequently among the small private firms in our sample, with a mean violation count (*NUMBER*) of 0.008 and only 0.5% of firm-year observations receiving a regulatory fine (*FINED*). Approximately 10% of the sample firms voluntarily disclose their income statement, choosing not to utilize the reporting exemptions available to them. Subsidiaries of publicly traded companies represent 2.2% of the total sample observations. Furthermore, tangible assets (*TANGIBILITY*) make up roughly 28.8% of the asset structure on average.

Panel B of Table 2 demonstrates significant differences in firm characteristics based on their voluntary disclosure choices. Crucially, firms that voluntarily disclose their income statements exhibit lower means for both *NUMBER* (0.004 versus 0.009) and *FINED* (0.003 versus 0.005), consistent with our main expectation that financial transparency is associated with lower

misconduct rates. Furthermore, disclosing firms are larger on average (*SIZE* 0.821 versus 0.693) and marginally older, but they display lower profitability proxies (Δ *EQUITY* 0.010 versus 0.027) and slower growth (*GROWTH* 0.065 versus 0.073). These differences align with the premise that highly profitable or rapidly growing firms are more likely to withhold financial information due to proprietary costs.

Panel C of Table 2 highlights distinctions between independent private firms and subsidiaries of public companies. Public subsidiaries are noticeably larger (*SIZE* 0.888 compared to 0.702) and more highly leveraged (*LEVERAGE* 0.685 versus 0.541). They also record lower average violation counts (0.005 versus 0.008) and a lower likelihood of being fined (0.003 versus 0.005). These findings indicate that being part of a publicly traded entity correlates with greater scale and a distinct capital structure, while inherently subjecting the firm to higher external scrutiny and lower baseline misconduct rates.

[TABLE 2 HERE]

Table 3 presents the Pearson pairwise correlation matrix for the variables used in our analysis. Focusing on our primary variable of interest, voluntary income statement disclosure (*DISCLOSE*) exhibits a significant negative correlation with the misconduct measure, *FINED* (-0.011). This preliminary finding aligns with our central hypothesis that small private firms opting for financial transparency are less likely to be associated with regulatory violations. Among the control variables, firm size (*SIZE*), growth (*GROWTH*), and firm age (*AGE*) demonstrate positive correlations with violations (0.006, 0.011, and 0.015, respectively), suggesting that larger, older, and faster-growing firms may experience greater regulatory exposure or operational complexity leading to breaches. Conversely, being a subsidiary of a public firm (*PUBLIC*) is negatively correlated with misconduct (-0.007), likely reflecting the stricter governance and external scrutiny

these entities face. Looking at the relationships among the non-violation variables, *DISCLOSE* shows a notable positive correlation with *PUBLIC* (0.242) and *SIZE* (0.109), indicating that larger firms and public subsidiaries are more likely to forgo reporting exemptions. While some expected structural correlations exist, such as between financial leverage and non-current liabilities (0.455), or growth and equity change (0.420), the correlations among the independent variables are generally low to moderate, mitigating concerns of severe multicollinearity in our subsequent regression analyses.

[TABLE 3 HERE]

4. Results

4.1 Determinants of Income Statement Disclosure

Table 4 presents the regression results examining the determinants of voluntary income statement disclosure (*DISCLOSE*) among small private firms. Focusing on the proprietary cost hypothesis, both $\Delta EQUITY$ (our proxy for profitability) and *GROWTH* exhibit negative and highly significant relationships with disclosure across both specifications. In Column (1), the OLS coefficient on $\Delta EQUITY$ is -0.083 ($t = -23.48$) and on *GROWTH* is -0.018 ($t = -11.32$). These results indicate that more profitable and faster-growing firms are significantly more likely to withhold their profit and loss accounts, consistent with the notion that successful firms hide financial performance to protect competitive advantages and avoid proprietary costs (Dedman and Lennox, 2009). The pooled logit model in Column (2) corroborates this, yielding strongly negative coefficients of -0.771 and -0.276, respectively.

Furthermore, the coefficient on *PUBLIC* is remarkably strong and positive, indicating that ownership structure plays a critical role in disclosure choices. In the linear probability model (OLS), being a subsidiary of a public firm increases the probability of disclosure by an absolute

41.4% (0.414, $t = 65.36$). This is highly intuitive, as public subsidiaries inherently face greater external scrutiny and alignment with their parent company's transparency standards.

Among the control variables, *SIZE* exhibits a positive and highly significant relationship with disclosure, with an OLS coefficient of 0.054 ($t = 44.31$), indicating that larger firms within this regulatory threshold are more forthcoming with their financial data. *LEVERAGE* is also positively associated with disclosure (0.030, $t = 14.61$), suggesting that firms relying heavily on debt may choose to disclose to satisfy creditor information demands. Conversely, *TANGIBILITY* displays a negative relationship (-0.011, $t = -7.23$), implying that asset-heavy firms are more likely to utilize the reporting exemption to shield their operations from public view.

[TABLE 4 HERE]

4.2 Income Statement Disclosure and Corporate Misconduct

Table 5 presents the regression results examining the effect of voluntary income statement disclosure on the incidence and frequency of regulatory violations. Across all four specifications, the coefficient on *DISCLOSE* is negative and statistically significant at the 1% level. Given an average violation count of 0.008 per firm-year in Table 2, the OLS result in Column (2) means that firms opting to disclose their profitability experience a 50% reduction in the number of violations (-0.004 relative to the sample mean, $t = -10.02$, $p < 0.01$). Similarly, for the likelihood of incurring any fine (Column 1), the OLS coefficient of -0.003 represents a 60% decrease relative to the unconditional sample mean of 0.005.

These findings are strongly reinforced by the non-linear models. The Poisson fixed-effects estimate in Column (4) yields a coefficient of -0.657 ($t = -8.23$), translating to an approximate 48.2% reduction in the expected number of violations. In Column (3), the logit coefficient of -0.649 on *DISCLOSE* corresponds to an odds ratio of 0.523, indicating that transparent firms have

approximately 47.7% lower odds of incurring a violation compared to those that utilize the reporting exemption to withhold their income statements. This economically meaningful effect supports our central hypothesis that small private firms strategically exploit reporting exemptions to maintain a low-visibility environment, which effectively shields operations from scrutiny and facilitates misconduct. While OLS models (Columns 1 and 2) are inherently less suited for severely imbalanced binary or count data compared to logit and Poisson specifications, the qualitative and economic consistency of the *DISCLOSE* coefficient across all models provides robust support for our findings.

The control variables offer additional insights into the drivers of private firm misconduct. Consistent with our expectations regarding external scrutiny, *PUBLIC* exhibits a consistently negative and highly significant relationship with violations (e.g., -0.629 in Column 4, $t = -3.97$), confirming that subsidiaries of public firms inherently face stricter oversight. *SIZE* shows a positive and highly significant association across all specifications (0.002 , $t = 6.05$ in OLS; 0.270 , $t = 6.53$ in Poisson), which is intuitive given that larger firms possess a greater scale of operations and corresponding exposure to regulatory oversight. *LEVERAGE* and *GROWTH* both display positive and significant coefficients; for instance, *GROWTH* yields a coefficient of 0.391 ($t = 5.20$) in the Poisson model, suggesting that highly leveraged and rapidly expanding firms may take more risks or encounter greater operational compliance challenges. Conversely, *LIQUIDITY* and *NONCURRENT_LIA* are negatively associated with misconduct, implying that better short-term financial health and long-term stability may reduce the pressure to engage in illicit activities. Finally, *TANGIBILITY* remains positively related to violations across the models, potentially reflecting the heavier regulatory and environmental burden typical of asset-intensive industries.

[TABLE 5 HERE]

4.3 Public Listing, Disclosure, and Violations

Table 6 examines whether the negative association between voluntary income statement disclosure and corporate misconduct varies depending on a firm's ownership structure, specifically whether the private firm is a subsidiary of a publicly listed company. The results in Column (1) reaffirm the baseline finding for the full sample, showing a significant negative relationship between P&L disclosure (*DISCLOSE*) and the likelihood of receiving a regulatory fine (*FINED*). However, when splitting the sample in Columns (2) and (3), a stark contrast emerges: the mitigating effect of disclosure is highly significant for independent private firms (*PUBLIC* = 0) but statistically indistinguishable from zero for subsidiaries of public firms (*PUBLIC* = 1).

Column (4) formalizes this finding using an interaction model. The coefficient on *DISCLOSE* remains negative and highly significant (-0.003, $t = -13.00$), while the interaction term *PUBLIC* × *DISCLOSE* is positive and significant (0.002, $t = 3.48$). This indicates that the misconduct-reducing effect of financial transparency is substantially weaker for public subsidiaries. These results perfectly align with the premise that subsidiaries of public companies inherently face higher levels of external scrutiny and regulatory attention due to their parent companies' status. Because these entities already operate in a higher-visibility environment, the marginal transparency benefit of voluntarily disclosing an income statement is minimal. Conversely, for standalone private firms operating in a naturally low-visibility environment, utilizing reporting exemptions acts as a shield for misconduct, meaning the choice to voluntarily disclose serves as a much stronger mechanism for corporate compliance.

[TABLE 6 HERE]

4.4 Sticky Policy: Disclosure Change and Violations

Table 7 addresses potential endogeneity concerns regarding static reporting policies by exploiting the 2016 update to UK regulatory thresholds. To isolate this effect, we restrict our subsample to firms newly eligible for the reporting exemption, those with total assets between £3.26 million and £5.1 million in 2015. Within this group, our key variable, *STOP_DISCLOSE*, identifies firms that shifted from mandatory reporting to voluntarily withholding their income statements.

Across all four specifications, the coefficient on *STOP_DISCLOSE* is positive and statistically significant. In the OLS models (Columns 1 and 2), transitioning to non-disclosure is associated with a significant increase in both the likelihood of incurring a fine and the total number of regulatory violations. These findings are strongly supported by the non-linear models: the logit coefficient in Column (3) is positive (0.411, $p < 0.10$), and the Poisson estimate in Column (4) yields a coefficient of 0.585 ($p < 0.05$). This indicates a substantially higher expected violation count for firms that actively switch to a lower-visibility environment, reinforcing our central hypothesis that exploiting reporting exemptions to reduce transparency facilitates misconduct.

The control variables remain consistent with our primary findings. *PUBLIC* is consistently negative and highly significant across all models (e.g., -1.272 in Column 4, $t = -3.00$), confirming that public subsidiaries are deterred from misconduct by inherent external scrutiny.

[TABLE 7 HERE]

Table 9 reports the results from the propensity score matched (PSM) sample, where firms that voluntarily disclose their income statements (*DISCLOSE* = 1) are matched 1-to-1 to non-disclosing firms using the same covariates as in the baseline models. The coefficient on *DISCLOSE* remains strongly negative and statistically significant at the 1% level across all four specifications,

confirming that the negative relationship between financial transparency and corporate misconduct is not driven by observable differences in firm size, leverage, growth, or asset structure. In the fixed-effects OLS models (Columns 1–2), voluntary disclosure is associated with a 0.3 percentage-point lower probability of receiving a fine and 0.004 fewer violations per firm-year. The nonlinear models demonstrate similarly robust economic magnitudes: the logit coefficient of -0.616 (Column 3) implies that disclosing firms have approximately 46% lower odds of being fined, while the Poisson model (Column 4) indicates an expected 46% reduction in the total count of regulatory violations. These matched-sample results provide strong additional support for the main findings, reinforcing the interpretation that small private firms strategically exploit reporting exemptions to operate in a low-visibility environment, thereby shielding their operations from external scrutiny.

[TABLE 9 HERE]

5. Conclusions

This study provides novel evidence on how financial transparency choices shape regulatory compliance behavior among private firms, focusing on workplace safety, labor, and environmental violations in the United Kingdom. Drawing on comprehensive data from Violation Tracker UK and Orbis financial records, we integrate evidence on voluntary disclosure decisions, proprietary costs, and corporate ownership structures to advance our understanding of how reporting exemptions influence real corporate outcomes.

Our primary finding is that voluntary financial transparency is closely intertwined with regulatory compliance. Small private firms that voluntarily disclose their income statements, choosing not to file "filleted" accounts, exhibit substantially lower rates of regulatory violations and are significantly less likely to incur fines. Conversely, we find that firms with higher growth profiles are more likely to withhold their financial performance, a behavior consistent with the

strategic withholding of information due to proprietary costs. By masking their profitability, these firms maintain a low-visibility environment that shields their operations from stakeholder scrutiny and facilitates non-compliance.

To address concerns regarding endogeneity and static reporting policies, we exploit a 2016 regulatory threshold increase that expanded eligibility for reporting exemptions. We show that firms shifting from mandatory reporting to actively withholding their income statements experience a marked increase in regulatory violations compared to those maintaining a consistent reporting policy. This dynamic shift helps isolate the role of opacity, confirming that actively retreating to a lower-visibility environment directly exacerbates misconduct. These findings remain highly robust across various econometric specifications, including propensity-score matching and subsample analyses of audited versus non-audited firms.

Furthermore, our results reveal that ownership structure significantly moderates this transparency-compliance dynamic. We find that the misconduct-reducing effect of voluntary disclosure is substantially weaker for subsidiaries of publicly listed firms compared to standalone private entities. Because public-affiliated subsidiaries inherently face the rigorous internal controls, consolidated auditing, and elevated reputational scrutiny of their parent companies, local financial opacity provides them with less of a shield. This asymmetry underscores that the disciplinary power of financial disclosure is most critical in otherwise opaque, standalone private settings.

Taken together, our findings demonstrate that financial reporting exemptions for small firms represent more than mere administrative simplifications; they can be opportunistically leveraged to conceal ethically and financially damaging practices. As the UK prepares to abolish these exemptions under the Economic Crime and Corporate Transparency Act by 2027, our study

offers timely, evidence-based validation for policies that mandate comprehensive financial disclosure. Ultimately, we highlight the vital role of financial transparency in deterring corporate misconduct, protecting employee welfare, and fostering accountable corporate environments across the broader economy.

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Table 1. Sample Selection (2016-2023)

Sample Selection Step	Firm-Years	Distinct Firms
PANEL A: Orbis Database		
UK Public and Private Firms in Orbis (at least £1m total assets)	3,175,186	520,214
Less bank and insurance industry	- 53,141	-8,613
Less medium, large, and publicly listed firms	-1,070,145	-111,807
Less missing control variables	-788,143	-114,083
Small Private Firm Sample	1,263,757	285,711
PANEL B: Violation Tracker		
Violation Tracker UK merged with Orbis (2016–2023)	61,998	53,036
Less missing controls	-28,212	-23,896
Violation Tracker Sample	33,786	29,140

Note: Table 1 reports on the sample selection process.

Table 2. Descriptive Statistics

Panel A: Full Sample

	Mean	SD	Min	Max	N
<i>DISCLOSE</i>	0.100	0.299	0.000	1.000	1263757
<i>FINED</i>	0.005	0.069	0.000	1.000	1263757
<i>NUMBER</i>	0.008	0.149	0.000	17.000	1263757
<i>SIZE</i>	0.706	0.432	0.001	1.603	1263757
<i>LEVERAGE</i>	0.544	0.396	0.000	2.331	1263757
<i>TANGIBILITY</i>	0.288	0.359	0.000	1.000	1263757
<i>EQUITY_Change</i>	0.026	0.124	-0.594	0.478	1263757
<i>GROWTH</i>	0.072	0.219	-0.438	1.154	1263757
<i>AGE</i>	18.686	16.120	0.000	81.000	1263757
<i>LIQUIDITY</i>	10.025	46.565	0.000	564.357	1263757
<i>NONCURRENT_LIA</i>	0.182	0.274	-0.000	1.128	1263757
<i>INTANGIBILITY</i>	0.015	0.075	0.000	0.625	1263757
<i>NO_SHAREHOLDERS</i>	0.998	0.518	0.000	3.091	1263757

Panel B: Disclosing vs. Non-Disclosing Firms

	DISCLOSE = 0			DISCLOSE = 1		
	Mean	SD	N	Mean	SD	N
<i>FINED</i>	0.005	0.071	1137938	0.003	0.053	125819
<i>NUMBER</i>	0.009	0.153	1137938	0.004	0.107	125819
<i>SIZE</i>	0.693	0.429	1137938	0.821	0.445	125819
<i>LEVERAGE</i>	0.544	0.379	1137938	0.552	0.526	125819
<i>TANGIBILITY</i>	0.291	0.359	1137938	0.265	0.354	125819
<i>EQUITY_Change</i>	0.027	0.119	1137938	0.010	0.164	125819
<i>GROWTH</i>	0.073	0.216	1137938	0.065	0.244	125819
<i>AGE</i>	18.583	16.056	1137938	19.619	16.660	125819
<i>LIQUIDITY</i>	9.695	46.049	1137938	13.007	50.900	125819
<i>NONCURRENT_LIA</i>	0.187	0.274	1137938	0.137	0.273	125819
<i>INTANGIBILITY</i>	0.014	0.074	1137938	0.019	0.085	125819
<i>NO_SHAREHOLDERS</i>	1.037	0.497	1137938	0.651	0.573	125819

Panel C: Private vs. Public Firms

	PUBLIC = 0			PUBLIC = 1		
	Mean	SD	N	Mean	SD	N
<i>FINED</i>	0.005	0.070	1235788	0.003	0.054	27969
<i>NUMBER</i>	0.008	0.149	1235788	0.005	0.122	27969
<i>SIZE</i>	0.702	0.431	1235788	0.888	0.437	27969
<i>LEVERAGE</i>	0.541	0.391	1235788	0.685	0.562	27969
<i>TANGIBILITY</i>	0.292	0.360	1235788	0.150	0.273	27969
<i>EQUITY_Change</i>	0.026	0.122	1235788	0.008	0.190	27969
<i>GROWTH</i>	0.072	0.218	1235788	0.087	0.280	27969
<i>AGE</i>	18.705	16.157	1235788	17.844	14.400	27969
<i>LIQUIDITY</i>	10.018	46.497	1235788	10.355	49.471	27969
<i>NONCURRENT_LIA</i>	0.183	0.274	1235788	0.126	0.278	27969
<i>INTANGIBILITY</i>	0.015	0.074	1235788	0.031	0.108	27969
<i>NO_SHAREHOLDERS</i>	1.001	0.522	1235788	0.898	0.308	27969

Table 3. Pearson Correlation Matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<i>(1) FINED</i>	1.000												
<i>(2) DISCLOSE</i>	-0.011 (0.000)	1.000											
<i>(3) SIZE</i>	0.006 (0.000)	0.109 (0.000)	1.000										
<i>(4) PUBLIC</i>	-0.007 (0.000)	0.242 (0.000)	0.069 (0.000)	1.000									
<i>(5) LEVERAGE</i>	0.003 (0.000)	0.019 (0.000)	-0.011 (0.000)	0.024 (0.000)	1.000								
<i>(6) TANGIBILITY</i>	-0.001 (0.282)	-0.032 (0.000)	-0.037 (0.000)	-0.064 (0.000)	0.118 (0.000)	1.000							
<i>(7) EQUITY_Change</i>	0.003 (0.001)	-0.042 (0.000)	0.109 (0.000)	-0.025 (0.000)	-0.270 (0.000)	-0.035 (0.000)	1.000						
<i>(8) GROWTH</i>	0.011 (0.000)	-0.012 (0.000)	0.259 (0.000)	-0.002 (0.007)	0.042 (0.000)	-0.060 (0.000)	0.420 (0.000)	1.000					
<i>(9) AGE</i>	0.015 (0.000)	0.023 (0.000)	0.068 (0.000)	0.032 (0.000)	-0.302 (0.000)	-0.020 (0.000)	-0.034 (0.000)	-0.094 (0.000)	1.000				
<i>(10) LIQUIDITY</i>	-0.011 (0.000)	0.027 (0.000)	0.019 (0.000)	0.011 (0.000)	-0.164 (0.000)	-0.072 (0.000)	0.001 (0.188)	-0.026 (0.000)	-0.002 (0.001)	1.000			
<i>(11) NONCURRENT_LIA</i>	-0.008 (0.000)	-0.062 (0.000)	0.006 (0.000)	-0.049 (0.000)	0.455 (0.000)	0.294 (0.000)	-0.105 (0.000)	-0.007 (0.000)	-0.195 (0.000)	0.035 (0.000)	1.000		
<i>(12) INTANGIBILITY</i>	0.000 (0.622)	0.021 (0.000)	-0.011 (0.000)	0.030 (0.000)	0.060 (0.000)	-0.102 (0.000)	-0.036 (0.000)	-0.013 (0.000)	-0.085 (0.000)	-0.029 (0.000)	0.025 (0.000)	1.000	
<i>(13) NO_SHAREHOLDERS</i>	0.002 (0.001)	-0.204 (0.000)	-0.001 (0.484)	-0.021 (0.000)	-0.036 (0.000)	-0.001 (0.427)	0.005 (0.000)	0.006 (0.000)	0.084 (0.000)	-0.021 (0.000)	0.010 (0.000)	0.044 (0.000)	1.000

Table 4. Determinants of Income Statement Disclosure

	(1) <i>(1) DISCLOSE (OLS)</i>	(2) <i>(2) DISCLOSE (Logit)</i>
<i>PUBLIC</i>	0.414*** (65.36)	2.380*** (74.74)
<i>SIZE</i>	0.054*** (44.31)	0.718*** (46.65)
<i>LEVERAGE</i>	0.030*** (14.61)	0.392*** (18.56)
<i>TANGIBILITY</i>	-0.011*** (-7.23)	-0.224*** (-9.72)
<i>EQUITY_Change</i>	-0.083*** (-23.48)	-0.771*** (-19.91)
<i>GROWTH</i>	-0.018*** (-11.32)	-0.276*** (-13.67)
<i>LIQUIDITY</i>	0.000*** (6.97)	0.001*** (6.91)
<i>NONCURRENT_LIA</i>	-0.049*** (-20.08)	-0.659*** (-19.18)
<i>INTANGIBILITY</i>	0.041*** (5.43)	0.334*** (3.95)
<i>NO_SHAREHOLDERS</i>	-0.093*** (-71.57)	-1.412*** (-63.25)
<i>AGE</i>	0.001*** (21.96)	0.010*** (20.45)
Constant	0.127*** (56.01)	-2.501*** (-21.73)
Observations	1,263,757	1,263,751
R-squared / Pseudo	0.188	0.223
Year FE	Yes	Yes
Industry FE	Yes	Yes

t statistics in parentheses

Dependent variable: DISCLOSE (Dummy for P&L Disclosure).

Standard errors clustered by firm level in parentheses.

Model 1 is a Linear Probability Model (reghdfe). Model 2 is a Pooled Logit.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 5. Income Statement Disclosure and Violation

	(1) <i>(1) FINED</i> <i>(OLS)</i>	(2) <i>(2) NUMBER</i> <i>(OLS)</i>	(3) <i>(3) NUMBER</i> <i>(LOGIT)</i>	(4) <i>(4) NUMBER</i> <i>(POI)</i>
<i>DISCLOSE</i>	-0.003*** (-12.73)	-0.004*** (-10.02)	-0.649*** (-10.37)	-0.657*** (-8.23)
<i>PUBLIC</i>	-0.003*** (-7.06)	-0.005*** (-5.78)	-0.622*** (-5.10)	-0.629*** (-3.97)
<i>SIZE</i>	0.001*** (8.02)	0.002*** (6.05)	0.281*** (8.53)	0.270*** (6.53)
<i>LEVERAGE</i>	0.002*** (10.68)	0.003*** (8.14)	0.307*** (6.30)	0.278*** (4.81)
<i>TANGIBILITY</i>	0.001*** (4.62)	0.001*** (3.38)	0.166*** (3.65)	0.149*** (2.64)
<i>EQUITY_Change</i>	-0.001** (-2.07)	-0.002 (-1.29)	-0.240* (-1.90)	-0.203 (-1.26)
<i>GROWTH</i>	0.003*** (6.78)	0.004*** (5.60)	0.394*** (6.44)	0.391*** (5.20)
<i>LIQUIDITY</i>	-0.000*** (-15.42)	-0.000*** (-14.68)	-0.019*** (-3.97)	-0.021*** (-4.66)
<i>NONCURRENT_LIA</i>	-0.001*** (-6.12)	-0.002*** (-4.44)	-0.265*** (-4.13)	-0.229*** (-2.84)
<i>INTANGIBILITY</i>	0.002** (2.22)	0.000 (0.25)	0.411** (2.19)	0.025 (0.10)
<i>NO_SHAREHOLDERS</i>	-0.000 (-1.43)	-0.000 (-0.26)	-0.031 (-1.12)	0.003 (0.09)
<i>AGE</i>	0.000*** (6.66)	0.000*** (5.61)	0.006*** (7.08)	0.006*** (5.99)
Constant	0.003*** (11.90)	0.004*** (8.84)	-6.258*** (-30.90)	-4.374*** (-58.86)
Observations	1,263,757	1,263,757	1,263,071	1,263,071
R-squared / Pseudo	0.009	0.008	0.113	0.141
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

t statistics in parentheses

Dependent variables: NUMBER = the annual count of regulatory violations per firm-year, FINED = indicator variable if the firm has a violation.

Key independent variable: DISCLOSE equal to 1 if the firm discloses income statement and 0 otherwise

Standard errors clustered by firm level in parentheses.

Models 1 and 2 use OLS with fixed effects (reghdfe). Model 3 uses Pooled Logit with FE dummies. Model 4 uses

Poisson regression with FE dummies.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6. Public Listing, Disclosure, and Violations

	(1) <i>(1) Full Sample</i>	(2) <i>(2) PUBLIC=1</i>	(3) <i>(3) PUBLIC=0</i>	(4) <i>(4) Interaction</i>
<i>DISCLOSE</i>	-0.003*** (-14.42)	-0.000 (-0.69)	-0.003*** (-13.03)	-0.003*** (-13.00)
<i>PUBLIC</i>				-0.004*** (-6.96)
<i>PUBLIC</i> × <i>DISCLOSE</i>				0.002*** (3.48)
<i>SIZE</i>	0.001*** (7.79)	0.002** (2.55)	0.001*** (7.82)	0.001*** (8.03)
<i>LEVERAGE</i>	0.002*** (10.34)	0.000 (0.32)	0.002*** (10.67)	0.002*** (10.64)
<i>TANGIBILITY</i>	0.001*** (4.85)	0.001 (0.52)	0.001*** (4.80)	0.001*** (4.63)
<i>ΔEQUITY</i>	-0.001** (-2.08)	-0.001 (-0.67)	-0.001** (-2.02)	-0.001** (-2.07)
<i>GROWTH</i>	0.003*** (6.80)	0.000 (0.19)	0.003*** (6.75)	0.003*** (6.79)
<i>LIQUIDITY</i>	-0.000*** (-15.53)	-0.000* (-1.90)	-0.000*** (-14.99)	-0.000*** (-15.44)
<i>NONCURRENT_LIA</i>	-0.001*** (-5.92)	-0.001 (-1.10)	-0.001*** (-5.99)	-0.001*** (-6.14)
<i>INTANGIBILITY</i>	0.002** (2.15)	-0.001 (-0.68)	0.002** (2.26)	0.002** (2.21)
<i>NO_SHAREHOLDERS</i>	-0.000 (-1.51)	0.000 (0.22)	-0.000 (-1.57)	-0.000 (-1.56)
<i>AGE</i>	0.000*** (6.65)	0.000 (0.42)	0.000*** (6.67)	0.000*** (6.66)
Constant	0.003*** (12.03)	0.001 (0.73)	0.003*** (11.47)	0.003*** (12.02)
Observations	1,263,757	27,968	1,235,788	1,263,757
R-squared	0.009	0.010	0.009	0.009
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

t statistics in parentheses

Dependent variable: FINED (Dummy).

Column 1 excludes the PUBLIC dummy. Columns 2 and 3 split the sample by PUBLIC status.

Column 4 includes the interaction term PUBLICxDISCLOSE.

Standard errors clustered by firm level in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7. Sticky Policy: Disclosure Change and Violations

	(1) <i>(1) FINED</i> <i>(OLS)</i>	(2) <i>(2) NUMBER</i> <i>(OLS)</i>	(3) <i>(3) FINED</i> <i>(LOGIT)</i>	(4) <i>(4) NUMBER</i> <i>(POI)</i>
<i>STOP_DISCLOSE</i>	0.002** (2.01)	0.006** (2.23)	0.411* (1.82)	0.585** (2.39)
<i>PUBLIC</i>	-0.003*** (-2.77)	-0.006*** (-3.44)	-0.843** (-2.13)	-1.272*** (-3.00)
<i>SIZE</i>	-0.000 (-0.03)	0.000 (0.22)	0.019 (0.11)	0.184 (0.74)
<i>LEVERAGE</i>	-0.000 (-0.60)	-0.000 (-0.06)	-0.199 (-0.98)	-0.082 (-0.26)
<i>TANGIBILITY</i>	0.004*** (2.97)	0.005** (2.47)	1.061*** (3.40)	0.912*** (2.84)
<i>EQUITY_Change</i>	0.001 (1.60)	0.002 (1.62)	0.754 (1.43)	0.691* (1.83)
<i>GROWTH</i>	-0.000*** (-2.58)	-0.000** (-2.21)	-0.293 (-1.17)	-0.610 (-1.28)
<i>LIQUIDITY</i>	0.000 (0.00)	-0.000 (-0.20)	-0.000 (-0.11)	-0.001 (-0.28)
<i>NONCURRENT_LIA</i>	-0.001 (-0.48)	-0.003 (-1.23)	-0.074 (-0.16)	-0.642 (-1.05)
<i>INTANGIBILITY</i>	-0.003 (-0.93)	-0.010 (-1.16)	-0.721 (-0.48)	-1.609 (-0.86)
<i>NO_SHAREHOLDERS</i>	0.001** (2.07)	0.001 (0.90)	0.408*** (2.59)	0.305 (1.06)
<i>AGE</i>	0.000 (1.05)	0.000 (0.32)	0.005 (0.95)	0.002 (0.34)
Constant	0.002 (1.37)	0.004 (1.64)	-6.885*** (-6.32)	-4.203*** (-9.23)
Observations	27,322	27,322	20,789	20,789
R-squared / Pseudo	0.016	0.020	0.147	0.236
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

t statistics in parentheses

Key variable: STOP_DISCLOSE (1 = Stopped reporting P&L in 2017, 0 = Continued reporting).

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 8. Leverage, Disclosure, and Violations

	(1) (1) Full Sample	(2) (2) High Lev	(3) (3) Low Lev	(4) (4) Interaction
<i>DISCLOSE</i>	-0.003*** (-13.53)	-0.003*** (-9.53)	-0.002*** (-7.38)	-0.002*** (-7.48)
<i>High Leverage</i>				0.002*** (7.20)
<i>HIGH_LEV</i> × <i>DISCLOSE</i>				-0.002*** (-4.71)
<i>has_Auditor</i>	0.001*** (4.36)	0.000** (2.02)	0.000* (1.74)	0.001*** (4.35)
<i>has_Big4</i>	-0.003*** (-6.60)	-0.003*** (-5.91)	-0.002** (-2.39)	-0.003*** (-6.07)
<i>SIZE</i>	0.001*** (8.79)	0.001*** (3.11)	0.002*** (9.44)	0.001*** (8.83)
<i>LEVERAGE</i>	0.002*** (10.84)	-0.002*** (-5.25)	0.011*** (15.83)	0.000 (1.63)
<i>TANGIBILITY</i>	0.001*** (5.16)	0.000 (0.84)	0.002*** (7.30)	0.001*** (4.83)
<i>EQUITY_Change</i>	-0.002** (-2.42)	-0.004*** (-4.19)	-0.001 (-0.96)	-0.002*** (-2.73)
<i>GROWTH</i>	0.003*** (6.46)	0.003*** (6.04)	0.001* (1.70)	0.002*** (6.33)
<i>LIQUIDITY</i>	-0.000*** (-16.07)	-0.000*** (-8.45)	-0.000** (-2.17)	-0.000*** (-16.47)
<i>NONCURRENT_LIA</i>	-0.001*** (-5.74)	-0.001*** (-3.70)	-0.008*** (-8.85)	-0.002*** (-6.66)
<i>INTANGIBILITY</i>	0.002** (2.29)	0.001 (1.10)	0.004** (2.39)	0.002** (2.44)
<i>NO_SHAREHOLDERS</i>	-0.000** (-2.09)	-0.000 (-0.52)	-0.000** (-2.54)	-0.000* (-1.73)
<i>AGE</i>	0.000*** (6.48)	0.000*** (6.69)	0.000*** (4.44)	0.000*** (7.12)
Constant	0.002*** (8.88)	0.006*** (11.16)	0.001 (1.60)	0.002*** (8.43)
Observations	1,263,757	598,138	665,619	1,263,757
R-squared	0.009	0.009	0.010	0.009
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

t statistics in parentheses

Dependent variable: FINED (Dummy).

Column 1 is the baseline model. Columns 2 and 3 split the sample by median Leverage (High vs. Low).

Column 4 includes the interaction term *HIGH_LEV* × *DISCLOSE*.

Continuous *LEVERAGE* is retained as a control in all models.

Standard errors clustered by firm (ID) in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 9. Income Statement Disclosure and Violation (PSM Matched Sample)

	(1) (1) <i>FINED</i> (OLS)	(2) (2) <i>NUMBER</i> (OLS)	(3) (3) <i>FINED</i> (LOGIT)	(4) (4) <i>NUMBER</i> (POI)
<i>DISCLOSE</i>	-0.003*** (-9.16)	-0.004*** (-6.68)	-0.616*** (-8.62)	-0.615*** (-6.64)
<i>PUBLIC</i>	-0.003*** (-6.48)	-0.005*** (-4.65)	-0.746*** (-4.98)	-0.724*** (-3.52)
<i>SIZE</i>	0.001** (1.97)	0.001* (1.80)	0.187** (2.33)	0.237** (2.05)
<i>LEVERAGE</i>	0.000 (1.17)	0.000 (0.22)	-0.002 (-0.02)	-0.058 (-0.48)
<i>TANGIBILITY</i>	0.001* (1.90)	0.002** (2.31)	0.186* (1.73)	0.325** (2.31)
<i>EQUITY_Change</i>	-0.002* (-1.72)	-0.003* (-1.72)	-0.488* (-1.74)	-0.523* (-1.78)
<i>GROWTH</i>	0.002*** (3.29)	0.004*** (2.79)	0.521*** (3.45)	0.479*** (2.89)
<i>LIQUIDITY</i>	-0.000*** (-11.29)	-0.000*** (-8.77)	-0.021*** (-2.65)	-0.019** (-2.30)
<i>NONCURRENT_LIA</i>	-0.001 (-1.49)	0.000 (0.34)	-0.154 (-1.15)	0.077 (0.44)
<i>INTANGIBILITY</i>	-0.000 (-0.15)	-0.002 (-0.59)	-0.190 (-0.43)	-0.440 (-0.72)
<i>NO_SHAREHOLDERS</i>	0.001** (2.40)	0.002*** (2.90)	0.149** (2.12)	0.232*** (2.93)
<i>AGE</i>	0.000*** (3.62)	0.000** (2.57)	0.007*** (3.71)	0.006** (2.48)
Constant	0.004*** (8.11)	0.005*** (5.82)	-5.703*** (-9.41)	-4.432*** (-26.18)
Observations	221,600	221,600	219,460	219,460
R-squared / Pseudo	0.008	0.006	0.111	0.138
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

t statistics in parentheses

Dependent variables: *FINED* (Dummy); *NUMBER* (Count).

Key independent variable: *DISCLOSE* (PL Disclosure).

Standard errors clustered by firm level in parentheses.

Sample is restricted to 1-to-1 Propensity Score Matched firms based on *DISCLOSE*.

Models 1 and 2 use OLS with fixed effects (reghdfe). Model 3 uses Pooled Logit with FE dummies. Model 4 uses Poisson regression with FE dummies.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix A. Violation Tracker UK

Violation Tracker UK sample composition by year

Year	Number of Violations	% of Total	Penalties (£m)	% of Total
2016	5287	4.8%	362	3.0%
2017	12,023	10.9%	2705,5	22.2%
2018	12,876	11.7%	463,5	3.8%
2019	13,289	12.1%	1019,5	8.4%
2020	8563	7.8%	2026,1	16.6%
2021	12,988	11.8%	1832,6	15.0%
2022	17,872	16.2%	1080,1	8.9%
2023	15,616	14.2%	1376,8	11.3%
2024	11,556	10.5%	1315,1	10.8%
Total	110,070	100%	12181,3	100%

Violation Tracker UK sample composition by offense type

Offense Type	Number of Violations	% of Total	Penalties (£m)	% of Total
Safety-related offences	60,605	50.2%	647,3	3.7%
Employment-related offences	34,929	28.9%	2154,9	12.1%
Environment-related offences	8426	7.0%	389,8	2.2%
Consumer-protection-related offences	6441	5.3%	2270,7	13.1%
Financial offences	5037	4.2%	5088,4	29.1%
Healthcare-related offences	4907	4.1%	19,4	0.1%
Competition-related offences	379	0.3%	6721,7	38.8%
Others offences	85	0.1%	41,3	0.3%

Note: Appendix A describes the Violation Tracker UK sample composition by year and offense type. Violation Tracker UK is the first wide-ranging database of enforcement actions brought against companies by government regulators in England, Scotland, Wales and Northern Ireland. It contains cases involving issues such as financial misconduct, workplace abuses, environmental offences and anti-competitive practices. Modelled on the U.S. Violation Tracker, it combines cases resolved since 2010 from over 80 regulatory agencies. Violation Tracker is produced by the Corporate Research Project of Good Jobs First.

Appendix B. Variable Definitions

Variable	Source	Definition
<i>NUMBER</i>	Violation Tracker UK	The total count of regulatory violations recorded for the firm during the specified year
<i>FINED</i>	Violation Tracker UK	A binary variable taking the value of 1 if the firm received at least one fine during the year, and 0 otherwise
<i>FINES</i>	Violation Tracker UK	The log of total monetary amount of fines and penalties imposed on the firm during the year (in British pounds)
<i>PUBLIC</i>	Orbis	A binary variable equal to 1 if the firm operates as a subsidiary of a publicly traded company, and 0 otherwise
<i>DISCLOSE</i>	Orbis	A binary variable equal to 1 if the firm discloses income statement, choosing not to utilize the reporting exemptions available to small firms in the UK, and 0 otherwise
<i>SIZE</i>	Orbis	The natural logarithm of total assets, serving as a proxy for firm size
<i>LEVERAGE</i>	Orbis	Total debt divided by total assets, measuring the firm's financial leverage
<i>EQUITY_Change</i>	Orbis	The change in shareholders' funds divided by total assets. Used as an estimated proxy for profitability for firms with filleted accounts.
<i>TANGIBILITY</i>	Orbis	Tangible assets divided by total assets, representing the proportion of physical assets in the firm's asset structure
<i>GROWTH</i>	Orbis	Total asset growth rate, calculated as the current year's total assets divided by the previous year's total assets, minus 1
<i>AGE</i>	Orbis	Firm age, calculated as the current year minus the year of incorporation
<i>LIQUIDITY</i>	Orbis	The current ratio, calculated as current assets divided by current liabilities.
<i>NONCURRENT_LIA</i>	Orbis	Non-current liabilities divided by total assets, calculated as (Total assets - Shareholders' funds - Current liabilities) / Total assets
<i>INTANGIBILITY</i>	Orbis	Intangible assets divided by total assets
<i>NO_SHAREHOLDE RS</i>	Orbis	The natural logarithm of 1 plus the number of shareholders

Note: Appendix B defines the main variables used in this study.

Appendix C. UK Reporting, and Audit Requirements

PANEL A: Size Thresholds (Requires meeting 2 of 3 conditions)¹

	Micro-entity	Small Company	Medium Company	Large Company
Total Assets (Gross)	≤ £316,000	≤ £5.1 Million	≤ £18 Million	Rest (> £18M)
Sales (Turnover)	≤ £632,000	≤ £10.2 Million	≤ £36 Million	Rest (> £36M)
Employees (Average)	≤ 10	≤ 50	≤ 250	Rest (> 250)

PANEL B: Reporting Requirements (Preparation and Public Filing Options)²

Reporting Component	Micro-entity (FRS 105)	Small	Medium / Large
Bal. Sheet	Simplified	Abbr. or Det.	Bal. Sheet Det.
Notes	Minimum (Footnotes only)	Notes Abbr. (Reduced)	Notes Det.
Inc. Stmn. (P&L)	- (Exempt)	- (Exempt)	Inc. Stmn. Det.
C.F. Stmn.	- (Exempt)	- (Exempt)	C.F. Stmn. Det.

¹ <https://www.legislation.gov.uk/uksi/2015/980>

² <https://www.legislation.gov.uk/ukpga/2006/46/section/444>

