

## Determinants of forward-looking information disclosures among non-financial firms in an emerging economy

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**Abstract:** *The disclosure of Forward-looking information (FLI) is non-mandatory. The study investigates the determinants of FLI by examining specific corporate governance and firm-level variables known from disclosures literature to be core determinants of voluntary disclosures. The investigation relied on data from 29 non-financial listed companies in a developing country over the period 2018 to 2023. From a positivist philosophy, the study adopted a quantitative approach. The authors employed a comprehensive methodological approach, involving the use of Descriptive Statistics, Panel Correlation, Panel Hausman Test, and the Panel Random Effects Model (REM). A balanced panel of 174 firm year observations was used to ascertain the impact of corporate governance and firm level attributes which are the independent variables of the study. The findings reveal that board independence and board size have a negative impact on FLI, suggesting that greater board independence and larger boards may reduce the extent of FLI disclosures. Conversely, board gender diversity and board foreign directorship positively influence FLI, indicating that diverse and internationally experienced boards contribute to better FLI disclosures. Firm size and leverage are also positively associated with FLI. Interestingly, the study finds that profitability has a negative relationship with FLI, suggesting that more profitable firms may focus less on disclosing FLI. The study provides additional insight using Nigerian evidence on the drivers of FLI disclosures in a developing country context. This has practical implication for regulators, investors, financial analysts and the academia in developing countries where information asymmetry is dominant and regulation is relatively weak.*

**Keywords:** *Forward looking information; corporate governance; firm attributes; Disclosures; Non-Financial firms; Developing countries.*

### Introduction

One of the most important aspects of stakeholder demands is the requirement for high-quality information to support decision-making. Stakeholder needs have changed over time as a result of economic, environmental, and technical developments. Since yearly financial reports and various company publications serve as stakeholders' main sources of information, most businesses have been under pressure to increase the amount and quality of information they reveal. According to Hussainey (2004), information disclosure may be either forward-looking, that is, referencing future events or backward-looking, that is, summarizing the outcomes of earlier events. Consequently,

companies feel more comfortable sharing information that looks forward and will satisfy stakeholders because knowledge from the past might create a narrow perspective and make decision-making unproductive (Dey et al., 2020).

In Nigeria, regulations provide for information disclosure requirements for annual financial statements, with the bulk of the information in the annual reports, retrospective in nature (Ajibola, 2017). With no other choice, investors and other stakeholders have to ask company managers for more information in order to make informed judgment (Kilic & Kuzey 2018). Forward-looking information (FLI) is information that a firm stakeholders request that provides details about financial projections for the future, plans and objectives for operations or

economic performance, the company's ability to generate enough income in the future, and the company's survival in the long run (Peter, 2014).

According to Buerthey and Pae (2020), forward-looking information (FLI) disclosure encompasses any combination of current plans and future projections that enable users and investors to assess or estimate a company's future financial performance. This type of disclosure is crucial as it provides insights into the company's strategic direction and potential financial outcomes, which are essential for making informed investment decisions. The primary goal of disclosing FLI is to satisfy investors' insatiable need for up-to-date information regarding their investment in the company (PwC, 2016). By offering a glimpse into the future, FLI disclosures help investors gauge the company's potential growth and risks, thereby aiding in the evaluation of the company's value and the potential return on investment.

According to Jensen and Meckling (1976), a low level of transparency in emerging markets is characterized by the disclosure of limited information, which leads to higher levels of asymmetric information and a decline in company value. In such markets, the lack of comprehensive and transparent information can create significant information gaps between the company and its stakeholders, including investors, creditors, and regulators. This asymmetry can result in adverse selection and moral hazard problems, where stakeholders may make decisions based on incomplete or misleading information. Consequently, companies in emerging markets may experience a decrease in their perceived value and attractiveness to investors, which can hinder their ability to raise capital and achieve sustainable growth.

Igbinovia and Ekwueme (2024) assert that companies that want to increase their market value can accomplish so by disclosing relevant information. By providing transparent and comprehensive information about their operations, financial health, and future prospects, companies can reduce information asymmetry and build trust with their stakeholders. This increased transparency can lead to a more favorable perception of the company, attracting more investors and potentially driving up the

company's market value. Additionally, relevant disclosures can help companies identify and address potential risks and opportunities, enabling them to make more informed strategic decisions and improve their overall performance.

Although Dey et al. (2020) provided empirical evidence using Bangladesh data, and Mohamed and Lamis (2019) used Egyptian data on the drivers of FLI disclosures, the determinants of such non-mandatory disclosure practices in developing countries like Nigeria need more extensive research focus. Forward-looking information disclosures are not mandatorily required but are voluntary in nature. This study is one of the first to provide Nigerian evidence on the drivers of FLI disclosures in a developing country context. The study has practical implications for regulators, policymakers, investors, financial analysts, and academia in developing countries where information asymmetry is a dominant challenge and corporate governance regulation is relatively weak. By understanding the factors that influence FLI disclosures, stakeholders can develop strategies to enhance transparency and improve the overall quality of corporate governance in these regions.

This study examined the effect of firm-level attributes and corporate governance on the level of forward-looking disclosure in the annual reports of sampled firms. The specific variables considered are board independence; board size; board gender diversity; foreign directorship; firm size; leverage; and profitability as potential determinants of forward-looking information disclosure practices among non-financial firms in Nigeria, with a focus on the period 2018-2023. By analyzing these variables, the study aims to identify the factors that influence the extent to which companies disclose forward-looking information. The findings can provide valuable insights into the relationship between corporate governance structures and disclosure practices, helping to inform policy decisions and improve corporate governance standards in Nigeria.

Relying on the agency and stakeholders' theories as well as prior empirics on the drivers of voluntary disclosures, the following research questions were raised to actualize the study's objectives: 1) What is the impact of firm-level attributes on FLI disclosures of non-financial

firms in a developing country? and 2) What is the impact of corporate governance on FLI disclosures of non-financial firms in a developing country? These questions aim to explore how different factors, such as the characteristics of the firm and its governance structures, influence the decision to disclose forward-looking information. By addressing these questions, the study seeks to contribute to the existing body of knowledge on voluntary disclosures and provide guidance for firms, regulators, and policymakers in developing countries seeking to enhance transparency and improve corporate governance practices.

## Literature review and hypotheses development

### *Stakeholder theory*

According to stakeholder theory, a company's core purpose extends beyond generating profits to creating value for all stakeholders, including shareholders, employees, customers, suppliers, communities, and the environment. Tom (2021) emphasizes that businesses have an ethical obligation to engage with stakeholders transparently, as such interactions build trust and long-term relationships. One crucial method to achieve this is through comprehensive information disclosure, which not only enhances transparency but also strengthens the company's reputation and credibility among its diverse stakeholders. By openly sharing relevant financial, operational, and sustainability information, companies can demonstrate accountability, address stakeholder concerns effectively, and secure their support, ultimately contributing to sustainable success and positive societal impact (Tom, 2021).

### *Agency theory*

Agency theory is a theory derived from corporate governance and one of the disclosure theories that concentrated on managerial incentives as proposed by Jensen and Meckling (1976). The emphasis was on the corporations' function as an intermediary in contractual relationships involving multiple parties. The agency theory is an economic theory that sees the corporation as a collection of contracts among self-interested

persons, according to O'Donnell and Sanders (2003). Directors of corporations may choose to freely divulge information as a result of agency expenses (Wong, 1988). Additionally, information asymmetry causes agency problems; therefore, management aims to lessen information asymmetry in order to cut agency expenses (Donnelly and Mulcahy, 2008). According to the agency theory, businesses should be encouraged to disclose more information voluntarily in order to lessen the issue of information asymmetry and thus lower agency costs (Omran and El-Galfy, 2014).

### *Board independence*

There are typically both executive and non-executive members in the boardroom. The addition of independent directors guarantees the optimal use of company resources and improves the board's accountability and transparency to the capital suppliers. According to Forker (1992), a greater percentage of independent directors reduces agency costs and creates impetus for better transparency. Information quality improves and greater disclosure is estimated when independent directors fulfill their monitoring and controlling responsibilities (Forker, 1992; Eng & Mak, 2003; Haniffa & Cooke, 2002). According to some earlier research (Al-Najjar and Abed, 2014; Kılıç and Kuzey, 2018; 2008; Uyar and Kilic, 2012), FLID is not significantly impacted by the proportion of independent directors. However, other research shows that board independence and corporate transparency are related (Buerthey and Pae, 2020; Liu, 2015; Wang and Hussainey, 2013). The study hypothesizes that:

**H1:** *Board independence has no significant impact on forward-looking accounting information.*

### *Board size.*

Each company has a different number of members on its board (Coles et al., 2020). Al-Najjar and Abed (2014) discovered that board size had a significant effect on FLID. Due to issues with coordination and communication, a smaller board is typically more effective than a big one (Wang and Hussainey, 2013). However,

the FLID and its scope are impacted by the financial knowledge and competence of the larger, more diverse board (Wang and Hussainey, 2013). Nonetheless, prior research has also shown a negligible correlation between FLID and board size (Buerter and Pae, 2020; Kılıç and Kuzey, 2018; Tan et al., 2015; Uyar and Kilic, 2012). The study therefore hypothesizes that:

**H2:** *Board size has no significant impact on forward-looking accounting information.*

#### *Gender diversity*

A gender-diversified board enhances decision-making by incorporating a wide range of perspectives and ideas during deliberations, leading to more comprehensive and well-informed outcomes (Barako and Brown, 2008; Bear et al., 2010). Bear et al. (2010) highlight that female directors foster more interactive communication among board members, creating an environment where diverse viewpoints can be openly shared and considered. This diversity of thought strengthens a company's ability to address the varied demands of stakeholders such as investors, lenders, analysts, creditors, and auditors, as emphasized by Harjoto et al. (2015). Empirical studies further demonstrate a significant positive correlation between board gender diversity and the level of Financial and Legal Information Disclosure (FLID), with evidence indicating that a higher proportion of female directors contributes positively to disclosure levels (Frias-Aceituno et al., 2013; Kılıç and Kuzey, 2018; Hail, 2002). Based on these findings, the study hypothesizes that increasing female representation on boards enhances a firm's overall transparency and stakeholder engagement.

**H3:** *Board gender diversity has no significant impact on forward-looking accounting information.*

#### *Foreign directors*

Foreign directors are members of the board who are not nationals of the country where the firm is based or operates. Developing markets welcome foreign direct investment. However, business

internal governance presents difficulties in these markets, especially in transitional economies. Youssef (2003) brought up the issue of insufficient management resources. In this sense, foreign directors may play a unique and significant role. Having foreigners on the board is one method for a country to embrace the corporate governance model of the West. By improving their comprehension of administrative issues and decision-making, it can benefit other board members. Another term for foreign directors is the proportion of equity or shares owned by foreign shareholders in local companies. Previous research has demonstrated that an organization's level of voluntary disclosure is impacted by the presence of foreign ownership (Alqatameen et al., 2020). Stemming from the literature, the study hypothesizes that:

**H4:** *Foreign directorship no significant impact on forward- looking accounting*

#### *Firms size*

One of the most widely cited factors to describe the kind and scope of corporate disclosures is firm size. A proxy of the total assets is frequently used to measure it. Several studies (Al-Najjar and Abed, 2014; Ho and Taylor, 2013; Kent and Ung, 2003; Kılıç and Kuzey, 2018; UyarandKilic, 2012; Wang and Hussainey, 2013) have identified a substantial relationship between corporate disclosures and firm size. Larger organizations may provide more corporate information than smaller ones due to demand from larger stakeholders, which could be one explanation for this beneficial association. Furthermore, because of their consistent performance, larger companies provide information about future earnings (Kent and Ung, 2003). But, some previous studies (Al-Najjar and Abed, 2014; Aljifri and Hussainey, 2007); also do not find any significant association between FLI and firm size. By contrast, a small firm needs to raise more capital, thus discloses more corporate information and the prospect to attract potential investors and creditors. The study presumes better FLI by smaller firms and hypothesize the following.

**H5:** *Firm size has no significant impact on forward-looking accounting information.*

*Leverage*

Leverage, which signifies higher risk, necessitates that a leveraged corporation incurs a higher cost of capital. Businesses adopting a capital strategy heavily reliant on debt are more prone to high agency costs, as noted by Alsaeed in 2006. To mitigate these expenses, providing more business information to reduce information asymmetries is crucial, as suggested by Inchausti in 1997. Leveraged enterprises address their information needs by offering creditors detailed information, as highlighted by Uyar and Kilic in 2012. According to agency theory, by disclosing corporate information, leveraged firms can decrease agency costs and the cost of capital, as supported by Barako in 2007 and Jensen in 1982. Furthermore, enhancing information dissemination can also reduce risk premiums, as observed by Aljifri and Hussainey in 2007. While Aljifri and Hussainey, along with Wang and Hussainey in 2013, found a significant correlation between disclosures and leverage, other studies by Al-Najjar and Abed in 2014, Kılıç and Kuzey in 2018, and Uyar and Kilic in 2012, suggest an insignificant association. Based on these findings, a hypothesis is formulated.

**H6:** *leverage has no significant impact on forward-looking accounting information*

*Profitability*

To provide stakeholders a positive perception, the successful business might reveal more information (Alsaeed, 2006). Highly profitable businesses provide stakeholders with better analysis and discussion of favorable and positive results. Prior research shows that company non-financial disclosures are positively impacted by profitability (Aljifri and Hussainey, 2007; Qu et al., 2015). As previously mentioned, some research (Al-Najjar and Abed, 2014; Kılıç and Kuzey, 2018; Uyar and Kilic, 2012) finds no meaningful connection between disclosures and profitability. However, it is anticipated that successful businesses will better disclose their good performance and activities in their annual reports in order to impress external stakeholders. Hence, the following hypothesis is proposed.

**H7:** *Profitability has no significant impact on forward-looking accounting information*

**Methodology**

From a positivist philosophical perspective, this study adopts a quantitative research approach aimed at rigorously examining the influence of board and firm attributes on the Financial Leverage Index (FLI) of non-financial firms operating in an emerging economy. Specifically, the research focuses on a sample of twenty-nine manufacturing firms listed on the Nigerian Exchange Group, which were randomly selected based on the availability of their financial statement reports for the designated study period. To structure the analysis, the study draws on the model proposed by Rasheed et al. (2022), which posits that FLI disclosure is determined by a combination of board and firm characteristics, including gender diversity, audit committee size, frequency of audit committee meetings, the presence of a risk management committee, leverage, firm size, audit firm size, and profitability. This relationship is further formalised through a mathematical expression that captures the functional dependency of FLI disclosure on these variables as follows:

$$FLID = f(GDIV, ACSIZE, ACMFREQ, RMCT, LEV, FSIZE, AFS, PBT) \dots \dots \dots (1)$$

$$FLAID_{it} = \beta_0 + \beta_1 GDIV_{it} + \beta_2 ACSIZE_{it} + \beta_3 ACMFREQ_{it} + \beta_4 RMCT_{it} + \beta_5 LEV_{it} + \beta_6 FSIZE_{it} + \beta_7 AFS_{it} + \beta_8 PBT_{it} + \mu \dots \dots \dots (2)$$

It is therefore modified as follows:

$$FLI_{it} = \beta_0 + \beta_1 BIND_{it} + \beta_2 BGD_{it} + \beta_3 FDIR_{it} + \beta_4 BS_{it} + \beta_5 FSIZ_{it} + \beta_6 LEV_{it} + \beta_7 PROF_{it} + \mu \dots \dots \dots (3)$$

- Where:
- FLI = Forward looking Information Disclosures
- BN = Board Independence
- BGD = Board Gender Diversity
- FD = Foreign Directors
- BS = Board Size
- FSIZ = Firm size
- LEV = Leverage
- PROF = Profitability
- $\mu$  = error term
- It = time series and cross sections
- $\beta_1 - \beta_7$  = parameters of the model

## Results

### Descriptive statistics

Table 1 presents the descriptive statistics for the variables related to board composition and attributes. The table includes Forward-Looking Accounting Information (FLI), Board Independence (BN), Board Size (BS), Board Gender Diversity (BGD), and Board Foreign Directorship (FD). The analysis of board composition reveals valuable insights into corporate governance practices. Companies exhibit a moderate level of board independence (BN), with an average of 66.31% independent directors, indicating that almost two-thirds of

their boards are composed of members who are not part of management. This suggests a reasonable level of oversight and potential for unbiased decision-making. The average board size (BS) is approximately 9.83 members, which balances the need for diverse perspectives with the efficiency of smaller boards. Gender diversity (BGD), however, remains low, with only 18.94% female representation, highlighting a significant gap in inclusivity and the potential for improvement in promoting gender equity. Foreign directorship (FD) averages 24%, suggesting that nearly a quarter of directors bring international perspectives, which can enhance strategic decision-making and global competitiveness.

**Table 1.** Descriptive statistics for board composition and attributes

|              | FLI      | BN       | BS       | BGD      | FD       |
|--------------|----------|----------|----------|----------|----------|
| Mean         | 0.650439 | 0.663077 | 9.833333 | 0.189437 | 0.240152 |
| Median       | 0.647059 | 0.666667 | 10.00000 | 0.181818 | 0.200000 |
| Maximum      | 0.941176 | 1.125000 | 18.00000 | 0.666667 | 0.666667 |
| Minimum      | 0.352941 | 0.375000 | 4.000000 | 0.000000 | 0.000000 |
| Std. Dev.    | 0.147884 | 0.122767 | 3.215000 | 0.127577 | 0.206706 |
| Jarque-Bera  | 2.803104 | 0.455503 | 6.485446 | 24.41907 | 11.84819 |
| Probability  | 0.246215 | 0.796322 | 0.039057 | 0.000005 | 0.002674 |
| Observations | 174      | 174      | 174      | 174      | 174      |

Table 2 provides a detailed overview of the descriptive statistics for firm characteristics related to the Forward-Looking Information (FLI). The mean FLI value of 0.650439 reflects a moderate tendency among firms to include forward-looking disclosures, while the standard deviation of 0.147884 indicates that the variation in such disclosures across the sample is relatively small. The FLI values range from 0.352941 to 0.941176, highlighting that although some firms

are highly forward-looking in their communication, others disclose considerably less forward-oriented information. Furthermore, the Jarque-Bera statistic of 2.803104 with a p-value of 0.246215 implies that the distribution of FLI among the firms does not significantly diverge from normality, suggesting that the observed variability in forward-looking disclosures occurs within a statistically typical pattern.

**Table 2.** Descriptive statistics for firm level attributes

|              | FLI      | FS       | LEV      | PROF      |
|--------------|----------|----------|----------|-----------|
| Mean         | 0.650439 | 17.02017 | 1.034174 | 0.057140  |
| Median       | 0.647059 | 17.22324 | 0.561136 | 0.036403  |
| Maximum      | 0.941176 | 21.68478 | 19.55710 | 6.174312  |
| Minimum      | 0.352941 | 10.95583 | 0.032253 | -2.359907 |
| Std. Dev.    | 0.147884 | 2.512668 | 2.665100 | 0.547030  |
| Jarque-Bera  | 2.803104 | 6.750562 | 8357.133 | 61780.37  |
| Probability  | 0.246215 | 0.034209 | 0.000000 | 0.000000  |
| Observations | 174      | 174      | 174      | 174       |

The descriptive statistics of firm characteristics offer valuable insight into corporate performance by highlighting the diversity within the sample. With an average firm size (FS) represented by a mean logarithm of total assets of 17.02017, the sample largely consists of sizable corporations, although the range of firm sizes reveals meaningful variation. The leverage ratio (LEV) reflects a broad spectrum of financial structures, where some companies are heavily dependent on debt while others maintain minimal leverage, signaling distinct risk appetites and capital strategies. Profitability (PROF) also displays notable variability, with firms experiencing both substantial gains and pronounced losses, reinforcing the heterogeneity of financial outcomes. Collectively, these disparities in firm size, leverage, and profitability provide crucial context for interpreting differences in disclosure behavior and governance choices across the observed firms.

*Correlation analysis*

The correlation analysis of Board Composition Attributes, as shown in Table 3, provides a deeper understanding of how various governance factors influence the disclosure of forward-looking information (FLI). The key attributes examined—board independence (BN), board size (BS), board gender diversity (BGD), and board foreign directorship (FD), demonstrate positive and statistically significant relationships with the extent and quality of FLI disclosure. Among these, board gender diversity and board

size exhibit the strongest correlations. This emphasises that a board with diverse gender representation and an optimal number of members is more effective in promoting comprehensive and transparent financial reporting. A diverse board brings different perspectives, experiences, and decision-making approaches, which collectively enhance the board's ability to evaluate risks, seize opportunities, and provide meaningful insights about future organisational performance. Similarly, the right board size allows for a balance between diverse viewpoints and effective coordination, ensuring decisions are both inclusive and efficient.

These findings highlight that companies with inclusive and well-structured boards are better equipped to generate forward-looking disclosures that are thorough, credible, and aligned with stakeholders' informational needs. High-quality FLI not only improves transparency but also reduces information asymmetry, as investors and other stakeholders gain clearer insights into the company's strategic direction and future prospects. In turn, this fosters greater stakeholder trust, facilitates more informed investment and managerial decisions, and supports the organisation's long-term sustainability. Moreover, effective corporate governance, as reflected in robust forward-looking reporting, strengthens market confidence and can contribute to a company's competitive advantage in an increasingly information-driven business environment.

**Table 3.** Correlation analysis for board attributes

|     | FLI      | BN        | BS        | BGD       | FD       |
|-----|----------|-----------|-----------|-----------|----------|
| FLI | 1.000000 |           |           |           |          |
| BN  | 0.035952 | 1.000000  |           |           |          |
| BS  | 0.169969 | 0.182695  | 1.000000  |           |          |
| BGD | 0.218277 | 0.282718  | -0.029978 | 1.000000  |          |
| FD  | 0.039064 | -0.043126 | 0.383586  | -0.149076 | 1.000000 |

The correlation analysis of firm-level attributes, as outlined in Table 4, provides a deeper understanding of the determinants of forward-looking information (FLI) disclosures. The patterns observed are particularly insightful when considering the strategic communication and transparency practices of firms. Firstly, firm

size (FS) exhibits a moderate positive correlation with FLI. This indicates that larger firms are generally more inclined to disclose comprehensive forward-looking information. The underlying rationale likely stems from the heightened visibility and stakeholder interest that large firms attract. These companies are under

more rigorous scrutiny by regulators, investors, and analysts, creating a stronger impetus to maintain credibility and demonstrate transparency in their reporting. The extensive resources available to larger firms may also facilitate the preparation and dissemination of detailed FLI. Secondly, leverage (LEV) displays a weak negative correlation with FLI. This pattern suggests that highly leveraged companies tend to disclose less forward-looking information. A plausible explanation is that firms with significant debt obligations may be cautious about revealing future projections that could raise alarms among creditors or expose potential financial vulnerabilities. By limiting forward-

looking disclosures, such firms might aim to manage stakeholder perceptions and maintain negotiating flexibility with their lenders. Thirdly, profitability (PROF) shows a very weak positive correlation with FLI, even though the relationship is statistically significant. This implies that the magnitude of current earnings has a limited effect on a firm’s willingness to issue forward-looking statements. Profitability alone does not appear to drive disclosure practices as strongly as firm size does, indicating that firms may prioritize external pressures and the need for market confidence over short-term financial performance when deciding the extent of FLI.

**Table 4.** Correlation analysis for firm level attributes

|      | FLI       | FS        | LEV      | PROF     |
|------|-----------|-----------|----------|----------|
| FLI  | 1.000000  |           |          |          |
| FS   | 0.325350  | 1.000000  |          |          |
| LEV  | -0.201041 | -0.396501 | 1.000000 |          |
| PROF | 0.044275  | 0.018009  | 0.028290 | 1.000000 |

**Model test**

The Hausman Test conducted for the Board Composition and Attributes model, as shown in Table 5, resulted in a Chi-Square statistic of 3.812390 with 4 degrees of freedom and a corresponding p-value of 0.4320. Given that this p-value is substantially above the conventional 0.05 significance threshold, we fail to reject the null hypothesis, which asserts that the random effects model yields consistent and efficient estimates relative to the fixed effects model. This

outcome indicates that the differences in coefficient estimates between the fixed and random effects models are statistically insignificant, validating the suitability of the random effects approach for this dataset. Consequently, the random effects model can be confidently used for interpreting the relationship between board composition, its attributes, and the variables of interest, as it does not introduce significant bias or compromise the accuracy of the inferences drawn from the analysis.

**Table 5.** Hausman test

| Test for              | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
|-----------------------|-------------------|--------------|--------|
| Board Composition     | 3.812390          | 4            | 0.4320 |
| Firm Level Attributes | 6.243084          | 3            | 0.1004 |

The Hausman Test conducted for the firm-level attributes, as presented in Table 5, yielded a Chi-Square statistic of 6.243084 with 3 degrees of freedom and an associated p-value of 0.1004, which is higher than conventional significance thresholds of 0.05 and 0.01. This result indicates that there is insufficient statistical evidence to reject the null hypothesis, suggesting that there is no significant difference between the fixed effects and random effects estimators.

Consequently, the random effects model is considered appropriate for analysing the firm-level data in this study because it effectively accounts for variability across different firms while avoiding systematic bias in the estimates. Moreover, the acceptance of the random effects model implies that the firm-specific effects are likely uncorrelated with the explanatory variables, which allows for more efficient parameter estimation and enhances the

generalisability of the findings. This strengthens the reliability of the subsequent analyses based on the random effects framework, ensuring that the model can capture the essential dynamics of firm-level behaviour without compromising the robustness of the conclusions.

### Regression Analysis

The results presented in Table 6 reveal that Board Independence (BN) has a coefficient of -0.003602 with a p-value of 0.0007, signifying a statistically significant negative relationship with Forward-Looking Accounting Information (FLI), while Board Size exhibits a coefficient of -0.002616 with a p-value of 0.0010, also

indicating a significant negative effect on the quality of forward-looking disclosures. In contrast, Board Gender Diversity shows a coefficient of 0.022098 with a p-value of 0.0033, reflecting a statistically significant positive relationship with FLI, and Board Foreign Directorship records a coefficient of 0.041823 with a p-value of 0.0025, demonstrating a strong positive and significant influence on the quality of Forward-Looking Accounting Information. Overall, these findings suggest that smaller and less independent boards may enhance forward-looking disclosures when balanced with diverse and internationally experienced board members, which collectively contribute to improving the quality of FLI provided by firms.

**Table 6.** Regression results for board composition - Random Effect

| Variable    | Coefficient | Std. Error | t-Statistic | Prob.  |
|-------------|-------------|------------|-------------|--------|
| BN          | -0.003602   | 0.001220   | -2.952459   | 0.0007 |
| BS          | -0.002616   | 0.001133   | -2.308914   | 0.0010 |
| BGD         | 0.022098    | 0.010946   | 2.018811    | 0.0033 |
| FD          | 0.041823    | 0.018792   | 2.225575    | 0.0025 |
| C           | 0.664323    | 0.039501   | 16.81777    | 0.0000 |
| R-squared   |             | 0.622131   |             |        |
| F-statistic |             | 2.956191   |             |        |

The regression analysis presented in Table 7 provides important insights into how firm-specific attributes influence Forward-Looking Accounting Information (FLI) disclosures. The results indicate that Firm Size (FS) has a positive and highly significant effect on FLI, with a coefficient of 0.028024 and a p-value of 0.0000, suggesting that larger firms are more likely to provide extensive forward-looking disclosures. Similarly, leverage (LEV) exhibits a positive and statistically significant relationship with FLI, as shown by its coefficient of 0.001575 and a p-value of 0.0030, implying that firms with higher debt levels are inclined to disclose more forward-looking information, likely to assure

stakeholders of their future prospects and debt-paying abilities. Conversely, profitability (PROF) demonstrates a negative and significant impact on FLI, with a coefficient of -0.000659 and a p-value of 0.0064, indicating that more profitable firms tend to disclose less forward-looking information, possibly because strong performance reduces the perceived need for additional disclosure. Furthermore, the model as a whole is validated by an F-statistic of 9.955867, confirming that the combination of firm size, leverage, and profitability offers substantial explanatory power for variations in FLI disclosure practices.

**Table 7.** Regression results for firm level attributes - Random Effect

| Variable    | Coefficient | Std. Error | t-Statistic | Prob.  |
|-------------|-------------|------------|-------------|--------|
| FS          | 0.028024    | 0.005084   | 5.512519    | 0.0000 |
| LEV         | 0.001575    | 0.000602   | 2.616279    | 0.0030 |
| PROF        | -0.000659   | 0.000321   | -2.052959   | 0.0064 |
| C           | 0.171876    | 0.090476   | 1.899685    | 0.0592 |
| R-squared   |             | 0.149437   |             |        |
| F-statistic |             | 9.955867   |             |        |

## Discussion

### *Board composition and forward-looking information disclosures*

The findings of a negative and statistically significant relationship between Board Independence (BN) and Forward-Looking Accounting Information (FLI) is consistent with prior studies like Yang et al. (2020), who found that independent directors' conservative tendencies could be attributed to their focus on risk management and compliance, which aligns with the observed negative relationship. Similarly, Niu et al. (2021) noted that a higher proportion of independent directors might lead to more conservative financial statements due to their emphasis on mitigating legal risks and enhancing governance standards. However, there is also empirical evidence that challenges the notion that independent directors always lead to conservative financial reporting. Gul and Tsui (2019) argue that independent directors may not uniformly result in conservative financial reporting, as their effectiveness can be influenced by various contextual factors such as board dynamics and external pressures, suggesting that the negative relationship observed may not be universally applicable.

The analysis highlights a significant negative relationship between board size and the extent of forward-looking information disclosed by firms, indicating that as the number of board members increases, the quality and timeliness of such information tend to decline. This trend can be explained by the inherent challenges faced by larger boards, which often struggle with coordination and effective communication among numerous members. The presence of more individuals typically results in slower decision-making processes, greater difficulty in reaching consensus, and potential delays in crafting and disseminating forecasts. Consequently, firms with larger boards may find it harder to maintain the clarity, accuracy, and timeliness of their forward-looking disclosures, ultimately reducing the usefulness of the information provided to stakeholders.

The finding aligns with Agency Theory, which highlights inefficiencies in decision-making due to divergent interests and

perspectives in larger boards (Jensen and Meckling, 1976). The dilution of accountability in larger boards supports the observed negative relationship between board size and FLI disclosures. Empirical evidence supporting these findings Adams and Ferreira (2009), who highlight how board size can impact governance processes and efficiency; and Klein (2021), who examines how board size influences the quality of financial disclosures. Conversely, some studies suggest that larger boards might offer benefits such as better monitoring and diverse perspectives. For instance, Coles, Daniel, and Naveen (2020) argue that larger boards can enhance monitoring and provide a broader range of insights, which may counter the negative effects observed.

Furthermore, the results reveal a positive and statistically significant relationship between Board Gender Diversity and the disclosure of FLI. This suggests that increased gender diversity on boards correlates with enhanced FLI. This finding aligns with the stakeholder theory. Stakeholder theory emphasizes that firms have responsibilities to various stakeholders, including employees, customers, and the community (Freeman, 1984). Gender diversity on boards enriches the firm's ability to address diverse stakeholder needs by incorporating a wider range of perspectives. Such diversity leads to more comprehensive and inclusive forward-looking information, addressing different stakeholder concerns and anticipating a broader range of future scenarios (Bear et al., 2019). This inclusivity enhances transparency and reliability, supporting more informed decision-making by investors and other stakeholders. Gender-diverse boards contribute to better oversight and monitoring by offering varied viewpoints that challenge managerial assumptions. This scrutiny improves the accuracy and thoroughness of forward-looking disclosures, aligning managerial actions with shareholder interests and reducing agency problems (Post and Byron, 2019). Supporting empirical evidence includes Post and Byron (2019) who found a positive impact of board gender diversity on the quality of corporate disclosures, arguing that diverse boards provide a broader range of insights. However, studies like Adams and Ferreira (2009) suggest that while gender diversity can improve

board dynamics, it does not automatically enhance financial reporting quality.

The presence of foreign directors on a company's board has a positive and statistically significant impact on forward-looking information (FLI), emphasizing their vital role in enhancing the quality and scope of disclosures about a firm's future performance. These directors, with their diverse international experiences and expertise, introduce advanced methodologies and global best practices that enrich the firm's ability to provide precise, relevant, and credible projections. By fostering transparency and offering a broader perspective on potential strategies and risks, foreign directors ensure that forward-looking disclosures not only meet global standards but also strengthen stakeholder confidence. This improvement in disclosure quality aligns closely with Stakeholder Theory, as it supports the interests of a wide range of stakeholders by enhancing the firm's accountability and facilitating informed decision-making.

Additionally, foreign directors' global viewpoints offer valuable insights into market trends and regulatory environments, ensuring that forward-looking information reflects a broader understanding of potential future developments. Furthermore, foreign directors contribute to better monitoring and control of managerial decisions, which ensures that disclosures are accurate and aligned with shareholder interests. Their strategic insights and advanced forecasting techniques also support better alignment of the firm's operations with shareholder expectations. Empirical studies support this positive relationship between board foreign directorship and FLI. Research by Miller et al. (2020) found that international board members significantly contribute to the quality of corporate disclosures through their global experience. Nguyen et al. (2022) demonstrated that foreign directors enhance investor confidence by improving transparency and detailed forward-looking information. Ding et al. (2021) showed that diverse board compositions, including foreign directors, are associated with more accurate financial forecasts. Huang and Wang (2019) provided evidence that foreign board members help reduce information asymmetry, enhancing disclosure quality.

#### *Firm-level attributes and forward-looking information disclosures*

The analysis shows a positive and statistically significant relationship between Firm Size (FS) and Forward-Looking Accounting Information (FLI). This indicates that larger firms are more inclined to provide detailed forward-looking disclosures, a finding that aligns with the principles of Stakeholder Theory and Agency Theory. Larger firms typically have a diverse and extensive stakeholder base, including shareholders, employees, customers, suppliers, regulators, and the community at large. Stakeholder Theory suggests that these firms are under greater pressure to meet the expectations of their stakeholders, who demand transparency and accountability, particularly regarding the company's future prospects and strategies. Therefore, larger firms are more likely to offer comprehensive FLI as a means of maintaining and enhancing trust with their stakeholders, satisfy stakeholder demands, and reduce agency conflicts. This view is supported by Ofoegbu and Joseph (2020), who found that firm size positively influences FLI disclosure practices. From the perspective of Agency Theory, the positive relationship between firm size and forward-looking disclosures can be seen as a mechanism to reduce potential conflicts of interest between management (agents) and shareholders (principals). In larger firms, where the separation of ownership and control is more pronounced, management may use detailed forward-looking disclosures to reduce information asymmetry and align their interests with those of shareholders. This approach helps to reassure shareholders about the firm's long-term prospects and reduces agency costs. The study of Ojo and Fakile (2020) support this notion, showing that larger firms with complex agency relationships are more likely to engage in extensive disclosure practices to mitigate these conflicts. This finding is consistent with Adebayo and Musa (2019) and Ekeocha and Uche (2023) in the literature.

Similarly, it reveals a positive and significant relationship between leverage (LEV) and the extent of FLI disclosed by firms. This suggests that companies with higher debt levels are more likely to provide detailed FLI information. The rationale behind this can be

understood through both Stakeholder Theory and Agency Theory. From the perspective of Stakeholder Theory, firms with higher leverage face increased scrutiny from stakeholders, especially creditors and investors, who are concerned about the firm's ability to meet its financial obligations. In response, these companies often enhance transparency by offering detailed forward-looking information, such as projections of future earnings and risk management strategies, which reduce information asymmetry, and build trust. Empirical evidence like Silva et al. (2021), supports this interpretation. Agency Theory also offers insight into this relationship. In highly leveraged firms, the potential for conflicts of interest between managers and shareholders increases, as managers might be incentivized to undertake risky projects that could compromise the firm's financial stability. To mitigate these concerns, managers may use enhanced forward-looking disclosures to signal their commitment to maintaining the firm's financial health and aligning their actions with the interests of shareholders and creditors. This reduces agency costs and builds confidence among stakeholders. Supporting this view, Wang and Sun (2022) observed that firms with higher leverage are more likely to disclose extensive FLI as a way to reduce agency conflicts and ensure that management's actions align with shareholder interests. Recent empirical studies further affirm the positive relationship between leverage and forward-looking disclosures. For example, Duru and Tsado (2020) highlighted that highly leveraged firms in Nigeria are more inclined to provide extensive forward-looking information to assure stakeholders of their ability to meet debt obligations. Similarly, Zhang et al. (2023) found that firms with higher debt ratios tend to disclose more forward-looking information to address lenders' concerns and reduce the perceived risks associated with their debt. On the contrary, Li and Zhou (2019) assert that highly leveraged firms might reduce FLI disclosures to avoid revealing sensitive information to competitors or to downplay potential financial difficulties.

Furthermore, the results show a statistically significant and negative relationship between profit (PROF) and FLI disclosures. This indicates that as a firm's profitability increases,

the amount of forward-looking information disclosed tends to decrease. The significance of this result at the 5% level reinforces its reliability, suggesting that more profitable firms may focus on highlighting their current financial success rather than future projections. For profitable firms, the reduced disclosure of forward-looking information may be a strategic response to the perceived decreased demand for such information. Investors and other stakeholders may already have high confidence in the firm's future prospects due to its current profitability, reducing the need for extensive future-oriented disclosures. Thus, these firms may prioritize showcasing their present achievements, aligning with studies that indicate firms with strong financial performance face less pressure to provide detailed forward-looking information. Agency Theory, which highlights potential conflicts of interest between management and shareholders, offers another explanation. Managers of highly profitable firms might limit forward-looking disclosures to avoid creating expectations that could later prove difficult to meet. By focusing on current performance, they aim to mitigate the risk of reputational damage or increased scrutiny from stakeholders, as setting overly optimistic expectations could backfire if future results do not align. This strategic behavior is supported by empirical evidence, such as the findings of Adetunji and Makinde (2021); Olowokure et al. (2020), who argue that highly profitable firms are less inclined to disclose extensive forward-looking information to avoid setting overly optimistic expectations. On the other hand, Dey et al. (2020) found a positive relationship between profitability and forward-looking disclosures. This variation may be due to differences in industry characteristics or the specific economic environment in which the firms operate.

#### *Enhancing board composition for balanced disclosures*

The observed negative relationship between board independence and Forward-Looking Information (FLI) highlights the need for a more strategic approach to board composition. From the perspective of Stakeholder Theory, organizations have a responsibility to provide transparent and accurate disclosures that meet the

informational needs of all stakeholders, including shareholders, employees, creditors, and the broader community. However, the conservative nature of independent directors, primarily focused on risk management and compliance, may inadvertently limit the scope and depth of forward-looking disclosures. This conservative approach could undermine the interests of stakeholders who rely on comprehensive and transparent information to make informed decisions. To address this, policymakers and regulatory bodies should consider guidelines that promote a balanced board composition. This could involve encouraging a mix of independent and executive directors who collectively ensure that risk management does not overshadow the need for transparency in forward-looking disclosures. Moreover, in line with Agency Theory, which emphasizes the importance of aligning the interests of management (agents) with those of shareholders (principals), training programs for independent directors could be implemented to equip them with the necessary skills to balance their risk-averse tendencies with the imperative of providing transparent and forward-looking information. By doing so, independent directors can better align their actions with the broader interests of shareholders, who often demand both risk management and proactive disclosures that reflect the company's future prospects.

#### *Promoting gender diversity for improved disclosures*

The positive relationship between board gender diversity and forward-looking information (FLI) highlights the critical role that diverse perspectives play in enhancing the quality of corporate disclosures. From the perspective of Stakeholder Theory, gender diversity on boards is integral to reflecting the varied interests of all stakeholders, including employees, customers, investors, and the broader community. Diverse boards are more likely to consider and address the concerns of these groups, leading to more comprehensive and transparent disclosures that align with the broader social responsibility of the firm. A diverse board can serve as a more effective monitoring mechanism, reducing information asymmetry and ensuring that the management's actions are aligned with

shareholders' interests. Gender-diverse boards bring varied experiences and insights, which can lead to more rigorous oversight and improved decision-making processes. This, in turn, promotes greater transparency and accountability in forward-looking disclosures. Policymakers should continue to advocate for gender diversity on corporate boards, recognizing its dual benefit in enhancing both governance and the transparency of forward-looking information. Implementing policies such as mandatory quotas or providing incentives for firms that achieve diversity targets could significantly improve the inclusivity and stakeholder alignment of corporate disclosures.

#### *Encouraging foreign directorship for global best practices*

The positive impact of board foreign directorship on Forward-Looking Accounting Information (FLI) highlights the valuable international perspectives that foreign directors bring to corporate governance. With their extensive global experience, these directors can significantly enhance the quality and relevance of forward-looking disclosures, which is crucial for firms operating in an increasingly interconnected world. By promoting the inclusion of foreign directors, firms can align their governance practices with global standards, thereby improving transparency and accountability. From the perspective of Stakeholder Theory, which emphasizes the importance of creating value for all stakeholders, the inclusion of foreign directors enables firms to understand better and meet the expectations of diverse stakeholder groups, especially international investors and regulators. This alignment with global standards not only strengthens the firm's reputation in the global market but also contributes to its long-term sustainability, ultimately benefiting all stakeholders. Their broader perspectives and experiences help ensure that forward-looking disclosures accurately reflect the firm's future prospects and strategies, thereby reducing information asymmetry and the potential for managerial opportunism. This alignment of interests between management and shareholders, facilitated by foreign directorship, reduces agency costs and enhances investor confidence.

To fully realize these benefits, it is essential to develop policies that encourage the inclusion of foreign directors, particularly in firms with significant global operations.

#### *Supporting larger firms in managing disclosure expectations*

The significant positive relationship between firm size and Forward-Looking Information (FLI) underscores the heightened responsibility that larger firms bear in delivering detailed and transparent forward-looking disclosures. Larger firms typically have more complex operations, a broader range of stakeholders, and greater visibility in the market, all of which amplify the expectations for robust and reliable forward-looking information. Larger firms, given their significant impact on the economy and society, are under increased scrutiny to provide disclosures that satisfy diverse stakeholder interests. Transparent forward-looking information allows stakeholders to make informed decisions, builds trust, and enhances the firm's reputation. In larger firms, where the separation of ownership and control is more pronounced, there is a greater need for comprehensive disclosures to mitigate information asymmetry and align the interests of management with those of shareholders. By providing detailed forward-looking information, larger firms can reduce agency costs by assuring shareholders that management is acting in their best interest and making decisions that will enhance long-term value. Policymakers should recognize the dual pressures on larger firms both from a stakeholder and an agency perspective, to meet high disclosure expectations. To support these firms in managing these pressures, it is essential to provide clear guidance on best practices for forward-looking disclosures.

#### *Addressing leverage and disclosure transparency*

The positive relationship between leverage and forward-looking information (FLI) underscores the notion that highly leveraged firms are inclined to provide more comprehensive forward-looking disclosures. This practice is likely driven by the need to reassure stakeholders, particularly creditors, about the

firm's future financial stability and ability to manage its debt obligations. From the perspective of Stakeholder Theory, this practice is crucial as it emphasizes the firm's responsibility to address the concerns of all its stakeholders, not just shareholders. By offering detailed forward-looking information, firms demonstrate their commitment to transparency and accountability, which are key tenets of stakeholder engagement. This proactive approach helps to build trust, enhance the firm's reputation, and ultimately support long-term sustainability by ensuring that all stakeholders are informed and confident in the firm's future plans. In highly leveraged firms, the risk of such conflicts may be heightened due to the pressures associated with meeting debt obligations. Detailed forward-looking disclosures can mitigate these conflicts by reducing information asymmetry. When managers provide clear and transparent information about how they intend to manage the firm's leverage, it aligns their actions with the interests of the principals, thereby reducing agency costs. Policymakers can play a pivotal role by introducing regulations that require firms with higher debt levels to adopt enhanced disclosure practices.

#### **Conclusion**

This paper contributes to empirical literature on FLI disclosures in developing countries. It provides an in-depth analysis of the impact of corporate governance and firm attributes on FLI among 29 companies in a developing economy from 2018 to 2023. By integrating both corporate governance mechanisms and firm-specific characteristics, the research offers a comprehensive understanding of the factors that influence the quality and extent of forward-looking disclosures in an emerging market context. Key findings reveal that board characteristics such as independence, size, gender diversity, and foreign directorship significantly impact FLI. Specifically, while board independence and size were found to have a negative effect on FLI, gender diversity and foreign directorship positively contributed to the quality of forward-looking disclosures. Additionally, firm-specific attributes such as size, leverage, and profitability also played

crucial roles, with larger and more leveraged firms providing more detailed forward-looking information, while more profitable firms tended to focus less on future projections.

The study highlights the practical relevance of both Stakeholder and Agency theories in explaining corporate disclosure practices, particularly in emerging markets. By drawing on evidence from Nigeria, it sheds light on the specific factors that influence the disclosure of forward-looking information (FLI) within a developing economy context. The research not only reinforces the theoretical underpinnings of corporate reporting but also offers actionable insights for key stakeholders, including regulators, investors, financial analysts, and academics, who rely on transparent and timely disclosures for decision-making. These findings are essential for guiding policy formulation, improving market efficiency, and enhancing the overall quality of corporate communication in developing countries.

The research significantly advances the understanding of the determinants of Financial Literacy Index (FLI) in developing economies by providing valuable insights into the key factors that influence financial literacy levels. This study not only contributes to the academic discourse on the topic but also identifies several areas that warrant further exploration. Specifically, it suggests the need to examine how different economic sectors may exhibit unique patterns in financial literacy, to extend the study period to capture long-term trends and fluctuations, and to incorporate additional variables that could provide a more comprehensive view of the factors driving FLI. By addressing these areas, future research can build upon the current findings to develop a deeper and more nuanced understanding of financial literacy in the context of emerging markets.

While the study presents apt findings and valuable recommendations, it is important to approach its conclusions with caution due to certain limitations that may affect the overall reliability of the results. One of the primary concerns lies in the absence of mandatory disclosure requirements for forward-looking information, which means that companies may choose to provide such disclosures selectively, leading to potential biases in the data.

Additionally, the study relied on a checklist that was not indigenously developed but adapted from external sources, making it susceptible to contextual misalignment and further bias. Another limitation is that the study concentrated solely on forward-looking disclosures in firms' annual financial statements, thereby excluding potentially significant insights from disclosures made on alternative platforms such as official websites, social media accounts, press releases, or other public communication channels. These omissions highlight the need for a more comprehensive approach to capture the full spectrum of forward-looking disclosures in future research.

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