

# Determinants of Forward-Looking Information Disclosure by Top Malaysian Companies within a Resource-Based View Framework

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## ABSTRACT

Forward-looking information is highly demanded by various stakeholders in corporate reporting, thus pressuring companies to provide such information in their annual reports. The purpose of this study was to examine the internal factors that influence the extent of forward-looking information disclosure in annual reports of Malaysian companies, adopting the resource-based view theory. The level of forward-looking information was measured against the Modified Forward-Looking Information Disclosure Index, which was newly developed based on international and national guidelines, criteria of the 2017 National Annual Corporate Report Awards competition, actual forward-looking information disclosure in annual reports by winners of the 2017 National Annual Corporate Report Awards, and past literature. The analysis involved annual reports of 71 top Malaysian companies from 2017 to 2019. Based on the findings, board diversity and foreign ownership had a positive significant relationship with the level of forward-looking information disclosure. Meanwhile, the independence of the audit committee was highly significant to affect the level of forward-looking information disclosure but in a negative direction. Companies are encouraged to identify the strengths of their internal resources and fully utilise them to improve the level of forward-looking information disclosure.

**Keywords:** Forward-Looking Information Disclosure; Resource-Based View Theory; Corporate Governance

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## INTRODUCTION

Corporate failures involving high-profile organisations such as Enron and Parmalat have put the accounting profession under control, and the reliability of corporate reporting is at stake. Various parties such as the investors, regulators, and other stakeholders have demanded more transparency and comprehensive disclosure due to the increasing number of corporate failures and financial crises (Uyar et al., 2013). As identified by Xin (2015), forward-looking information (FLI) is among the most highly demanded types of information by stakeholders. In response to the demand, companies are forced to review and revise their existing business strategies by incorporating FLI in their annual reports to remain competitive in the business environment, thus creating a sustainable competitive advantage.

Several initiatives and continuous efforts have been undertaken by both government and non-governmental organisations (NGOs) to improve the awareness of the importance of corporate reporting, thus, enhancing the level of disclosure in Malaysia. For example, to promote corporate transparency, Bursa Malaysia made it compulsory in 2017 for the Management Discussion and Analysis (MD&A) statement to be disclosed by all public-listed companies. Prior to that, the MD&A statement, which contains FLI elements, was on a voluntary basis when it was first introduced in 2011.

Research on FLI is crucial nowadays due to the increasing attention it receives from various parties and stakeholders. Companies are willing to provide FLI in their corporate reporting to add value to the communication with stakeholders, thus reducing the level of information asymmetry (Hassanein & Hussainey, 2015). Apart from that, companies perceive FLI disclosure as one of the opportunities to create a competitive advantage (Alqatamin et al., 2017) because comprehensive disclosure of FLI elements indicates the companies' sound corporate governance practices (Lokman et al., 2011). Meanwhile, FLI is demanded by investors for making investment decisions (Bravo, 2016). Creditors, on the other hand, require FLI to access companies' performance and ability to repay loans (Uyar & Kilic, 2012).

Numerous studies have been conducted to examine factors influencing the level of FLI disclosure around the globe, including in Lebanon (Mahboub,

2019), the United Kingdom (Abed & Al-Najjar, 2016), Bahrain (Mousa & Elamir, 2018), and Qatar (Elgammal et al., 2018). In Malaysia, minimal studies have been initiated to determine factors influencing the level of FLI disclosure (e.g. Embong, 2014; Dzaraly et al., 2018; Zaini et al., 2019). Among the factors considered in previous studies conducted in Malaysia were ownership structure (family-controlled, non-family-controlled, managerial ownership, foreign ownership), leverage, characteristics of the board of directors (board size, board independence, board educational background, audit committee size), and auditor type (Zaini et al., 2019; Wardhani, 2019; Said et al., 2018; Dzaraly et al., 2018).

Corporate governance mechanisms are always associated with good disclosure policies and better transparency of information (Qu et al., 2015). In Malaysia, corporate governance has undergone tremendous reformation after the introduction of the Malaysian Code of Corporate Governance (MCCG) in 2000. Since then, the MCCG has been constantly reviewed to ensure its relevance and accordance with best practices of good corporate governance. Few corporate governance variables have been identified to influence FLI disclosure which includes independent directors, board size, concentrated ownership, chief executive duality, independence of the audit committee, and female directors (Elshandidy & Neri, 2015; Al-Najjar & Abed, 2014; Aribi et al., 2018). The resource-based view theory (RBVT) is used in explaining the determinants of FLI disclosure in this paper. RBVT is based on the notion that the internal resources of a company are combined and fully utilised for optimum performance. Hence, the purpose of this study was to examine the relationship between internal factors, which include corporate governance variables, and the extent of FLI disclosure by adopting the RBVT.

## **LITERATURE REVIEW**

Information published in the annual report can be categorised into two types, namely “backward-looking information” and “forward-looking information” (Hussainey, 2004). Backward-looking information is the disclosure of historical data and past events. As for FLI, it includes the disclosure of present as well as future data and events, which can range from forecasted revenues, expected earnings, future cash flow, and non-financial

information which include risk, opportunities, and future plans or strategies (Aljifri & Hussainey, 2007).

Uyar and Kilic (2012) examined the level of FLI disclosure among Turkish companies and the findings revealed that the disclosure was not high, and was qualitative in nature. This is due to the fact that most companies preferred to report only the good news and not disclose bad news. Similarly, Mathuva (2012) found a low level of disclosure among cross-listed companies in Nairobi, Kenya. According to Utami and Wahyuni (2018), the level of FLI disclosure could be improved in Indonesia if the practice of integrated reporting is mandated in the country.

Few studies had also been conducted to examine the level of FLI disclosure in Malaysia. For example, a recent study by Zaini et al. (2019) found a minimal level of FLI disclosure among family-controlled and non-family-controlled companies in Malaysia. Another study by Embong (2014) found that the FLI element was the least to be disclosed in comparison to other types of information such as financial and corporate social responsibility elements. In addition, Dzaraly et al. (2018) identified that FLI was disclosed partially in the annual report instead of full disclosure.

Even though FLI disclosure is categorised as voluntary disclosure and not mandated, it is crucial for companies to provide comprehensive elements of FLI in their annual reports. Full disclosure of FLI enables companies to gain trust and confidence, thus attracting potential investors (Dzaraly et al., 2018). Additionally, FLI disclosure is demanded by investors, and by responding to the demand, existing investors can be retained. Failure to improve the current level of FLI disclosure by companies in Malaysia will result in difficulty to retain existing investors as well as attracting potential investors (Dzaraly et al., 2018). Hence, there is a need for more studies to be conducted regarding FLI disclosure in Malaysia with the aim of improving the disclosure level.

## **RESOURCE-BASED VIEW THEORY AND HYPOTHESES DEVELOPMENT**

### **Resource-Based View Theory**

The Resource-based view theory (RBVT) is an approach where the internal resources of a firm are fully utilised to achieve competitive advantage. According to Madhani (2010), under the application of RBVT, a firm makes strategic choices and options based on internal resources and internal abilities to compete in an uncertain business environment. Moreover, the attributes proposed by the RBVT are very important for firms to recognize their internal resources and internal competencies as a source of sustainable competitive advantage.

RBVT categorises a firm's resources into three which are tangible resources, intangible resources, and organisational capabilities (Wernerfelt, 1984). Tangible resources are visible in nature and can be identified easily such as plant and machinery, raw materials, cash in hand, and company location (Dess et al., 2016). Intangible resources are invisible in nature but are embedded in unique routines and practices of the firm such as innovation, reputation, and human resources (Dess et al., 2016). Organisational capabilities are associated with skills possessed by the firm in converting input into output and the ability to integrate tangible and intangible resources effectively (Dess et al., 2016). Examples of organisational capabilities are good financial management, and superior quality products. Barney (1991) stated that full utilisation of a firm's internal resources could be the source of sustainable competitive advantage if it meets four attributes which are valuable, rare, imperfectly imitable, and non-replaceable.

One of the studies that used RBVT as the underlying theory is the study by Phornlaphatrachakorn and Na-Kalasindhu (2020). This study examined the effects of strategic management accounting, which included FLI, on firm performance in Thailand. As reported in the study, FLI was found to positively influence operational excellence, firm performance, managerial efficiency, and organizational effectiveness of finance businesses in Thailand. Phornlaphatrachakorn and Na-Kalasindhu (2020) stated that the valuable resources and capabilities of a company are crucial to support strategic management accounting implementation to achieve the desired business outcome in a competitive environment.

As in Malaysia, one of the studies that employed the RBVT to determine the extent of corporate disclosure is the study by Ramba et al. (2021). Specifically, the study was conducted to determine factors affecting the level of environmental, social, and governance (ESG) disclosures among Malaysian public companies. The result obtained from the study revealed that research and development expenditure and International Organization for Standardization (ISO) certification had a moderately significant relationship with the level of ESG disclosures in Malaysia.

This paper perceived FLI disclosure as part of the strategies undertaken by firms to achieve sustainable competitive advantage. In line with the RBVT, firms' internal resources will be utilised to improve the level of FLI disclosure in the annual reporting. FLI is one of the most demanded disclosures by various stakeholders, thus, it has become an important issue for the preparers (Dey et al., 2020). Future information allows stakeholders to access the upcoming performance of the firm, thus improving their investment quality and decision (Phornlaphatrachakorn & Na-Kalasindhu, 2020). Consequently, as perceived by stakeholders, the existence of FLI elements in corporate reporting potentially adds value to the firm (Bravo & Alcaide-Ruiz, 2019).

## **Hypotheses Development**

A considerable number of studies have been conducted to examine the determinants of corporate reporting in annual reports. Nevertheless, studies on the determinants of FLI disclosure in Malaysia are limited. Hence, this section focuses on the relationship between the independent variables and the extent of FLI disclosure by adopting the RBVT in developing the hypotheses.

### ***Board with Accounting Expertise***

The board of directors shoulders a crucial role and responsibility in managing a company's business affairs. The board's educational background, working experience, and networking contributions are important assets to the company because they can help with strategic decision-making (Amran et al., 2016). Specifically, a board with accounting expertise that possesses in-depth knowledge of accounting practices, standards, and procedures is capable of promoting a better quality disclosure (Abad & Bravo, 2018). A

study initiated by Reeb and Zhao (2013) found that there was a positive significant relationship between the board's accounting and financial expertise with the quality of disclosure. On the other hand, Abad and Bravo (2018) found that boards with accounting qualifications disclosed more FLI in their corporate reporting. RBVT perceived the board's accounting and financial expertise as part of the intangible assets as it is part of the human resources of the company that are embedded in unique routines and practices. Therefore, it was hypothesized that:

**H1:** There is a positive relationship between a board with accounting expertise and the extent of FLI disclosure.

### ***Board Diversity***

The element of board diversity has become popular in the corporate world where women are given more opportunities in terms of employment and participation in higher positions or senior management (Báez et al., 2018). The inclusion of women directors was first introduced in the MCCG 2017 and continued to be emphasized in the MCCG 2021 where it required the inclusion of at least 30% of women in board positions (MCCG, 2021). The inclusion of women on a board provides a broader perspective, which is crucial in facilitating the decision-making process and responding to extensive demands from various stakeholders (Phua & Ho, 2017). Furthermore, Cox and Blake (1991) suggested that women's involvement is encouraged to gain their perspectives from different angles to tackle uncertainties in the business environment. In line with the RBVT, the broad perspective offered by the diverse human resource is considered as part of a company's intangible assets which can help to improve the level of corporate disclosure. Therefore, it was hypothesized that:

**H2:** There is a positive relationship between board diversity and the extent of FLI disclosure.

### ***Independence of Audit Committee***

The audit committee is a standing committee that plays an important role to evaluate the internal and external audit process, assess the internal control environment, review related party transactions as well as conflict of interest matters, and most importantly, oversee financial reporting (Bursa Malaysia, 2017). This is to ensure that the company is operated ethically

and up to the legal standards (Atu et al., 2013). As stated by Bédard and Gendron (2010), an independent audit committee member should be free from any personal or economic relationship with the management to ensure that the information disclosed is not biased, which is only at the discretion of the management. Furthermore, the monitoring capacity of the independent member is unlikely to be affected due to the absence of potential conflict of interest, thus enhancing the reporting system (Siagian & Tresnaningsih, 2011). An independent audit committee member is regarded as a valuable resource under the RBVT (Barney, 1991), by taking into consideration the transfer of knowledge and skills benefited from outside companies. Hence, it was hypothesized that:

**H3:** There is a positive relationship between the independence of the audit committee and the extent of FLI disclosure.

### **Board Size**

The board of directors is recognised as a vital source of human and social capital to a company due to the certain expertise they possess (Certo, 2003). A broad range of educational backgrounds, experience, and knowledge of the board are important human capital resources. Therefore, a larger board size is considered a high-quality board because of the higher chance of having more expertise from the diverse professionals (Yan et al., 2021), thus enabling it to function effectively in executing strategies and policies of the company (Chithambo & Taurigana, 2017). In addition, with a greater pool of talent and resources, a larger board size contributes largely to the effectiveness in tackling issues that can affect the company (Hu & Loh, 2018). A study by Munther (2019) found a significant positive relationship between larger board sizes and the disclosure of future and forecasted information among Jordanian companies. Another recent study by Cahaya and Yoga (2020) revealed that a larger board size brought a significant positive impact on the extent of voluntary disclosure in Indonesia. Under the RBVT, board size is perceived as an intangible resource of the company due to the diverse skills, talent, and expertise possessed by the board. Thus, it was hypothesized that:

**H4:** There is a positive relationship between board size and the extent of FLI disclosure.



### **Foreign Ownership**

Foreign ownership is defined as the proportion of equity or shares owned by foreign shareholders, either organisations or individuals, in local companies. Results from past studies have proven that the existence of foreign ownership in an organization influences the level of corporate disclosure (e.g. Alnabsha et al., 2018; Alqatameen et al., 2020). Companies originating from developing countries are more likely to provide voluntary information, which includes FLI elements when they are involved with multinational companies (Zaini et al., 2018). This is especially true when the company is operated in countries with international issues (e.g. child labour, poor working environment, and violation of human rights) to meet investors' expectations and reflect a good reputation (Zaini et al., 2018). Apart from that, the presence of foreign ownership helps to improve a company's performance resulting from the transfer of knowledge, technology, and innovation from foreign investors to local companies (Ruslim et al., 2017). This is in accordance with RBVT where the transfer of technology, knowledge, and innovation is perceived as intangible resources of a company (Dess et al., 2016). Hence, it was hypothesized that:

**H5:** There is a positive relationship between foreign ownership and the extent of FLI disclosure.

### **Control Variables**

There were two control variables used in this study which were industry type and firm leverage. Evidence from past studies has proven that industry type and firm leverage somehow influence FLI disclosure in corporate reporting (Fitriasuri et al., 2019; Elfeky, 2017).

## **RESEARCH DESIGN**

### **The Sampling**

Initially, the sample frame of this study consisted of 300 annual reports, whereby, the top 100 public listed companies in Bursa for the years 2017, 2018, and 2019 were selected as samples for data collection. However, a few annual reports were excluded from the sample such as annual reports by companies involved in the financial industry (i.e banking, insurance,

real estate, and financial services) because these companies are regulated separately under the Financial Services Act 2013 (Hamid, 2004). Annual reports missing a certain year were also excluded from the sample because this will lead to incomplete information during the data collection process.

During the exclusion process, 29 out of 100 top companies' annual reports were omitted from the sample size. The remaining top companies' annual reports to be analysed were 71 companies. As a final sample, a total of the top 71 companies' annual reports for the years 2017, 2018, and 2019, measured by market capitalisation were chosen as the sample size, with the year 2017 used as the basis for selecting the top 71 public companies listed in Bursa Malaysia.

## **Content Analysis**

The content analysis technique was adopted in this study to examine the extent of FLI disclosure in annual reports of Malaysian companies. According to Alkhatib (2014), content analysis is a scientific and quantitative approach in social science research that relies on the human ability to interpret phrases, terms, or written texts. This technique is commonly adopted to examine the level of disclosure in corporate reporting. Examples of past studies that adopted the content analysis technique to examine the level of disclosure are Alkhatib (2014), Aribi et al. (2018), and Zaini et al. (2019).

## **Dependent Variable**

The dependent variable in this study was FLI disclosure. By adopting content analysis as the measurement technique, the annual reports of companies were examined. The level of FLI disclosure was determined using the Modified Forward-Looking Information Index (MoFLiDi), which was developed based on the International Integrated Reporting Framework (IIRF) guideline, MD&A Disclosure Guide, criteria of the 2017 National Annual Corporate Report Awards (NACRA) competition, actual FLI disclosure included by winners of the 2017 NACRA annual reports, and past literature (see Ah Choi & Joseph, 2020). Overall, the MoFLiDi consisted of 40 items with five categories (refer to Appendix 1). The unweighted disclosure index, where all information disclosed was viewed as equally

important, was used to measure the extent of FLI disclosure in this study. Hence, a score of “1” was given to indicate that FLI disclosure was provided by the company, and “0” if otherwise.

## Independent Variables

The summary of measurement of the independent variables in this study is presented in Table 1 below.

**Table 1: Measurement of Independent Variables**

Variable	Measurement	Type of Variable	Past Studies that Adopted the Same Method
Board with Accounting Expertise	Based on the percentage of directors with accounting qualifications in the company	Continuous	Hassan and Marimuthu (2017)
Board Diversity	Based on the percentage of women directors in the company	Continuous	Aribi et al. (2018)
Independence of Audit Committee	Based on the percentage of independent members in the company	Continuous	Sheikh and Shah (2019)
Board Size	Based on the number of directors on the board in the company	Continuous	Abu Qa'dan and Suwaidan (2019)
Foreign Ownership	Based on the percentage of foreign shareholdings in the company	Continuous	Said et al. (2018)

## Control Variables

The control variables in this study were industry type and firm leverage. The industry type was measured using dichotomous coding where the code of “1” was given if the company operated in a highly sensitive or controversial industry and “0” if otherwise. According to Cai et al. (2012), the highly sensitive or controversial industry is often known as a sinful industry (e.g gambling and adult entertainment) and an industry that involves social, ethical, and environmental issues (e.g weapons and biotech). Firm leverage in this study was measured by dividing the total liabilities of the company by the total assets as employed by Darussamin et al. (2018).

## ANALYSIS OF DATA

The autocorrelation issues and significance variance of the unobserved fixed effects caused by random and fixed effects were revealed by employing the Likelihood Ratio test, LSDV F-test, and Breusch Pagan LM test. These tests are essentially used to determine if the model suits pooled or panel regression (Janang et al., 2020). Based on the results obtained, the model was found to be suitable for pooled regression because the p-value was higher than 0.05. Hence, this study continued with the use of pooled regression via a hierarchical model. The determinants of FLI disclosure by top Malaysian public-listed companies were examined by using hierarchical regression analysis. As stated by Petrocelli (2003), such specific, theory-based hypotheses are examined using a statistical method known as hierarchical regression analysis.

Before this study proceeded further with the use of the hierarchical regression analysis, it was crucial to conduct assumption tests to determine the appropriateness of the data collected, thus confirming the appropriateness of the model (Polakovic, 2012). There are four types of assumption tests known as normality tests, linearity, multicollinearity, and homoscedasticity. This study tested two models, Model 1, the relationship with the control variables, and Model 2, the relationship with the independent and control variables. The hierarchical regression for Model 1 was as follows:

$$FLID = \beta_0 + \beta_6IndT + \beta_7Lev + e$$

The hierarchical regression for Model 2 was as follows:

$$FLID = \beta_0 + \beta_1BwAE + \beta_2BDiv + \beta_3IoAC + \beta_4BSz + \beta_5FrOwn + \beta_6IndT + \beta_7Lev + e$$

Where:

FLID	=	Forward-Looking Information Disclosure
BwAE	=	Board with Accounting Expertise
BDiv	=	Board Diversity
IoAC	=	Independence of Audit Committee
BSz	=	Board Size

FrOwn	=	Foreign Ownership
IndT	=	Industry Type
Lev	=	Leverage
$\beta$	=	the coefficient of x, where how much y changes for each one-unit change in x
e	=	error term

## FINDINGS

### Descriptive Statistics

The descriptive statistics for FLI disclosure (dependent variable) and continuous variables used in this study are presented in Table 2. Table 3 presents the frequency analysis of the categorical variable employed in this study. Based on the result provided in Table 2, on average, the FLI items disclosed by Malaysian companies were 47.34% (17 items out of 40 items). The most-reported FLI item by the companies was in the External Environment category with 76.51%, while the least reported FLI item was in the Financial FLI category with only 4.46%.

**Table 2: Descriptive Statistics for Forward-Looking Information Disclosure and Continuous Variables**

Variables	Minimum	Maximum	Mean	Std. Deviation
FLI Disclosure (%)	22.50	65.00	47.34	6.4498
Board with Accounting Expertise (%)	8.33	71.43	30.52	12.9793
Board Diversity (%)	0.00	66.67	21.77	11.9520
Independence of Audit Committee (%)	50.00	100.00	89.77	14.1083
Board Size	5	13	8.82	2.0526
Foreign Ownership (%)	0.00	80.00	13.84	17.7010
Firm Leverage (%)	0.18	110.03	46.54	20.9279

**Table 3: Frequency Analysis for Categorical Variable**

Item	Industry Type	
	Frequency	Percent
Non-sensitive industry	189	88.7
Sensitive industry	24	11.3

Table 3 displays the frequency analysis for the categorical variable of this study, which is industry type. Based on the finding, 24 companies selected for this study were operating in controversial or sensitive industries (11.3%).

## Multiple Regression Findings

The normality test was performed prior to the multiple regression. The skewness and kurtosis results of foreign ownership and industry type of more than 2 signify that transformation was required. However, since the industry is a categorical variable, which is not from a normal distribution, no transformation is required (Sheikh & Cook, 1999).

Table 4 presents the correlation analysis between the independent variables, control variables, and dependent variable. Regarding correlation analysis, Franke (2010) stated that multicollinearity or intense collinear correlations exist if the value falls above 0.9. Based on the results obtained as shown in Table 4, the value of Pearson Correlation in each independent variable column recorded was less than 0.9. Therefore, it was concluded that the multicollinearity problem did not exist.

**Table 4: Correlation Analysis**

		Correlations							
		FLID	BwAE	BDiv	IoAC	BSz	LFrOwn	IndT	Lev
FLID	Pearson Correlation	1	0.085	0.159 <sup>*</sup>	-0.187 <sup>**</sup>	0.098	0.183 <sup>*</sup>	-0.095	-0.083
BwAE	Pearson Correlation	0.085	1	0.034	-0.086	-0.146 <sup>*</sup>	-0.069	-0.004	-0.105
BDiv	Pearson Correlation	0.159 <sup>*</sup>	0.034	1	-0.003	0.019	0.135	0.159 <sup>*</sup>	0.031
IoAC	Pearson Correlation	-0.187 <sup>**</sup>	-0.086	-0.003	1	0.016	-0.050	-0.103	-0.164 <sup>*</sup>
BSz	Pearson Correlation	0.098	-0.146 <sup>*</sup>	0.019	0.016	1	0.131 <sup>*</sup>	-0.230 <sup>**</sup>	0.210 <sup>**</sup>
LFrOwn	Pearson Correlation	0.183 <sup>*</sup>	-0.121	0.132	-0.069	0.146 <sup>*</sup>	1	0.235 <sup>**</sup>	-0.019
IndT	Pearson Correlation	-0.095	-0.004	0.159 <sup>*</sup>	-0.103	-0.230 <sup>**</sup>	0.175 <sup>**</sup>	1	-0.148 <sup>*</sup>
Lev	Pearson Correlation	-0.083	-0.105	0.031	-0.164 <sup>*</sup>	0.210 <sup>**</sup>	0.026	-0.148 <sup>*</sup>	1

<sup>\*\*</sup>. Correlation is significant at the 0.01 level (2-tailed).

<sup>\*</sup>. Correlation is significant at the 0.05 level (2-tailed).

Table 5 presents the predictive power of Model 1 (control variables and FLI disclosure) and Model 2 (independent variables, control variables, and FLI disclosure). From the result shown in Table 5, the adjusted  $R^2$  of 0.9% in Model 1 showed that only 0.9% variation of FLI disclosure can be explained by the control variables. The adjusted  $R^2$  of 11.5% in Model 2 reflected that the increase of 10.6% of FLI disclosure was explained by the independent variables. The significance level of this study varied between Model 1 and Model 2. Based on Table 5, the p-value of 0.139 in Model 1 indicated that the model was insignificant. However, in Model 2, the p-value of 0.000 showed that the model was highly significant which also meant that the extent of FLI disclosure was predicted by the independent variables and control variables.

**Table 5: Predictive Power of Model 1 and Model 2**

Model	P-value (Sig)	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.139	0.136	0.019	0.009	0.06420
2	0.000	0.380	0.144	0.115	0.06067

Table 6 displays the multiple regression results of this study. The findings obtained as shown in Table 6 depicted that both industry type and firm leverage in Model 1 were insignificant to determine the extent of FLI disclosure since the p-values exceeded the 0.1significance level. The coefficient results also revealed that there was a negative relationship between the control variables and the extent of FLI disclosure.

In Model 2, industry type, firm leverage, board diversity, independence of audit committee, and foreign ownership revealed significant findings. As shown in Table 6, industry type, firm leverage, and board diversity reported a significant p-value of 0.010, 0.016, and 0.014, respectively, which was smaller than the 0.05 significance level. Meanwhile, the independence of the audit committee and foreign ownership were highly significant with a p-value of 0.001 and 0.008, respectively, smaller than the significance level of 0.01. However, the coefficient of (-) 0.181, (-) 0.165, and (-) 0.219 for industry type, firm leverage, and independence of audit committee, respectively, revealed that there was a negative relationship with the extent of FLI disclosure. The coefficient values of (+) 0.164 for board diversity and (+) 0.181 for foreign ownership reflected that there was a significant

positive relationship with the extent of FLI disclosure. On the other hand, boards with accounting expertise and board size were not significant with a p-value of 0.319 and 0.262, respectively, exceeding the 0.1 significance level.

**Table 6: Results of the Regression Analysis**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.490	0.011		43.871	0.000
Industry Type	-0.022	0.014	-0.109	-1.583	0.115
Firm Leverage	-0.031	0.021	-0.099	-1.436	0.152
2 (Constant)	0.565	0.041		13.848	0.000
Industry Type	-0.037	0.014	-0.181	-2.600	0.010**
Firm Leverage	-0.051	0.021	-0.165	-2.424	0.016**
Board with Accounting Expertise	0.033	0.033	0.066	1.000	0.319
Board Diversity	0.089	0.036	0.164	2.484	0.014**
Independence of Audit Committee	-0.100	0.030	-0.219	-3.290	0.001***
Board Size	0.002	0.002	0.078	1.125	0.262
LogFrOwn	0.024	0.009	0.181	2.688	0.008***

Notes: \*\*\*Highly significant at p-value < 0.01 level; \*\*significant at p-value < 0.05; \*moderately significant at p-value < 0.1 level.

## DISCUSSION

The purpose of this paper was to examine the factors that influenced the extent of FLI disclosure in annual reports among Malaysian public listed companies using the RBVT. Based on the findings, the extent of FLI disclosure in Malaysia was relatively low (47.34%), not even reaching 50%. On average, the FLI disclosure items were 17 items out of 40 items in the MoFLiDi. The most reported FLI item by the selected companies was from the External Environment category (76.51%), while the least disclosed item was from the Financial FLI category (4.46%). Hutton and Stocken (2021) categorised FLI into two types, qualitative forecast, and quantitative forecast. The External Environment category is qualitative in nature, which involves narrative discussion and analysis, thus allowing the companies to disclose more (Xin, 2015). However, the Financial FLI category is from the quantitative forecast, which is more specific (Athanasakou & Hussainey, 2014). Hence, a low disclosure level on Financial FLI provided by



companies is due to its difficulty to be measured and quantified (Hassanein & Hussainey, 2015).

Table 6 reflects the multiple regression findings of this study. Five variables, which are industry type, firm leverage, board diversity, independence of audit committee, and foreign ownership were significantly associated with the extent of FLI disclosure. However, only board diversity and foreign ownership revealed a positive significant relationship with the extent of FLI disclosure. Meanwhile, a board with accounting expertise and board size were found to be insignificant in influencing the extent of FLI disclosure.

Board diversity revealed a positive significant relationship with the extent of FLI disclosure among the companies in Malaysia. A diverse board of directors allows the companies to tackle a broad range of demands from various stakeholders and respond accordingly (Phua & Ho, 2017). Female directors possess different sets of skills and perspectives which can help to enhance the monitoring processes, improve the transparency level of corporate reporting, and encourage active engagement with the shareholders (Aribi et al., 2018). Additionally, women are commonly known to be more risk-averse, and conservative, and emphasize higher ethical standards (Abad et al., 2017), thus making them unlikely to manipulate earnings, demanded better disclosures, and thorough audits to avoid reputation loss and lawsuit risk (Srinidhi et al., 2011). With reference to the RBVT, different sets of skills and perspectives possessed by female directors were perceived as intangible assets of a company. Therefore, H2 was accepted.

Foreign ownership is one of the crucial control mechanisms to control the transparency of corporate reporting. According to Al Amosh and Khatib (2021), the transfer of expertise from foreign shareholders provides clear guidance to the companies' policies which include disclosure strategy. This is most likely to happen if the foreign investors are from countries with high acceptance and awareness of the adoption of FLI disclosure (Lopes & Coelho, 2018). Apart from that, foreign ownership allows the transfer of innovation, technology, and management skills from foreign countries to local companies (Mihai & Mihai, 2013). As proposed under the RBVT, transferring technologies and innovations are among the types of intangible resources of a company. Hence, H5 was accepted.

The independence of the audit committee reported a highly significant influence on the level of FLI disclosure in Malaysia and supported H3 but in the opposite direction. This result suggested that a higher number of independent audit committee members in a company reduce the level of FLI disclosure. One possible explanation for this finding is that independent non-executive members possess limited sources of information on risk management and operation because they are not involved in the operation and business affairs of the company (Ismail & Rahman, 2011). The selection preferences of board members in Malaysia may contribute to the findings of this study where they are appointed based on title, designation, or status rather than qualifications and capabilities (Abdullah et al., 2017). Under the RBVT, the incompetency of independent members is recognised as a poor resource for the company (Peng, 2004). In this study, the relationship between the independence of the audit committee and the level of FLI disclosure in Malaysia was not supported by the RBVT. In other words, the audit committee may not be regarded as the strategic resource for firms to achieve a competitive advantage. Instead, the independence of the audit committee may play other roles such as controlling and monitoring a company's operation.

Other variables which include board with accounting expertise and board size were found to be insignificant to influence the extent of FLI disclosure in the annual reports. A board with accounting expertise had no effect on the level of FLI disclosure because as argued by Fraser and Henry (2007), the knowledge and experience in accounting and finance alone are not adequate to assess the overall operation of a business. The companies' operations can be affected by many factors, both financial and non-financial elements. Therefore, it requires knowledge from various fields to identify other factors such as technical issues, management structures, and physical resources. Under the RBVT, knowledge, and experience in accounting and finance are part of a company's intangible resources. However, based on the results and arguments made, accounting and finance knowledge was not sufficient to affect the level of FLI disclosure. Hence, H1 was rejected.

The board size of a company was found to be insignificant and had no effect on the level of FLI disclosure in annual reports among public companies in Malaysia. According to Aljifri et al. (2013), the larger the board size, the more communication-related problems exist due to the

multiple opinions from boards with various backgrounds, knowledge, skills, and experience in the decision-making processes. With reference to the RBVT, effective communication is one of the companies' important assets to improve decision-making and the level of corporate disclosure (Eisenstein, 2019). Moreover, the board that chooses to protect their egos instead of the benefit of the company tends to make poor decisions (Eisenstein, 2019). Therefore, H4 is rejected.

## CONCLUSIONS

The findings from this paper provided important insights into the determinants of FLI disclosure in the annual reports of publicly listed companies in Malaysia and the level of disclosure by adopting the RBVT. It is concluded that female participation in the board brings a significant positive influence on the extent of FLI disclosure in Malaysia due to diversification in skills and viewpoints. The presence of foreign investors also encourages companies to provide more FLI in the annual reports as a result of the transfer of expertise.

Three research areas have been covered in this study, FLI disclosure, corporate governance, and the RBVT. Firstly, this study provided an overview of the level of FLI disclosure and the disclosure pattern in annual reports among public companies in Malaysia. The findings revealed that the disclosure level of FLI in Malaysia is still quite low and companies prefer to disclose the narrative part of FLI instead of future quantitative information which is the Financial FLI category. It is crucial for companies to report comprehensive FLI in the annual reports as it is perceived as part of the companies' strategies to achieve sustainable competitive advantage. Secondly, it was found that board diversity had a significant influence on the extent of FLI disclosure, which implies that corporate reporting of a company can be enhanced through good and sound corporate governance practices. Thirdly, this study showed that the extent of FLI disclosure in Malaysia is partly explained by the RBVT, which is the internal resource of the company.

There are a few limitations in this study. Firstly, this study mainly focused on top companies listed in Bursa Malaysia. Future research should

consider integrating top companies, smaller public listed companies, and government-linked companies to gain more in-depth findings on the level of FLI disclosure in Malaysia. Secondly, the annual report was employed as a unit of analysis in this study. Future research could cover other types of communication channels such as corporate websites, newspapers, or press conferences to acquire the latest and more relevant FLI disclosure.

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## APPENDIX

### Appendix 1: Modified Forward-Looking Information Index (MoFLiDi)

**Table 7: Modified Forward-Looking Information Index (MoFLiDi)**

Category	No.	Disclosure Items
a) Financial FLI	1	Profit
	2	Loss
	3	Cash flow
	4	Capital
	5	Return on equity (ROE)
	6	Sales
	7	Capital expenditures
	8	Production – Gross domestic products (GDP)
	9	Cost-to-income ratio (CIR)
	10	Advertising and publicity expenditure
	11	Earnings per share (EPS)
	12	Research and development expenditure
	13	Investment
	14	Retirement benefit
b) Non-financial FLI (Strategies)	15	Vision
	16	Mission
	17	Objectives
	18	Discussion on future plan or strategies for capital expenditure
	19	Discussion on future plan or strategies for costs management
	20	Discussion on future plan or strategies for advertising and publicity
	21	Discussion on future plan or strategies for investment projects
	22	Discussion of likely effect of business strategy on future performance
	23	Discussion on future plan or strategies to mitigate risks
	24	Discussion on future plan or strategies to improve customer service
	25	Discussion on future plan or strategies to reduce carbon dioxide emissions
	26	Discussion on future plan or strategies to improve partnership

c) Company structure	27	Technological structure
	28	General prospects
	29	Dividend distribution policy
d) External environment	30	Legal and regulatory
	31	Geopolitical
	32	Economic conditions
	33	Social responsibility
	34	Industry trend
	35	Discussion about the impact(s) of industry or market risks
	36	Relationship
e) Other	37	Opportunities
	38	Assumptions underlying forecasts
	39	Future project progress
	40	Future health and security incident

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### **Financial FLI**

Financial FLI includes a projection that is being disclosed in either monetary terms or percentages. There are 14 disclosure items that fall under the category of financial FLI.

### **Non-financial FLI (Strategies)**

Non-financial FLI includes discussion on plans or strategies initiated by the companies to be performed in the future. The main objective of this disclosure is to improve the companies' performance in the future. There are 12 disclosure items that are classified under the category of non-financial FLI.

### **Company Structure**

Company Structure includes disclosure of allocation, supervision, and coordination of activities with the purpose of achieving the company's goal. It should be able to affect the company's actions and provide standard operating procedures and routines. There are three disclosure items under this category.

### **External Environment**

External Environment includes disclosure of FLI items that are beyond the control of the company which can affect the company's performance positively or negatively. The external environment items may include rules and regulations imposed by the government and geopolitical and economic

conditions. There are eight disclosure items under the external environment category.

***Others***

‘Others’ includes the disclosure of FLI items that did not belong in any of the four categories which are Financial FLI; Non-financial FLI; Company Structure; and External Environment. There are three disclosure items under the other category.