The Determinants and Outcomes of Forward-Looking Disclosure
Evidence from Companies listed in Indonesia

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Declaration of Originality

I, Dilla Zhafarina, hereby declare that this thesis is real and accurate to be my own work, especially written for partial requirement to complete Undergraduate Program of Accounting, and has not been presented in any other occasion before. I bear full responsibility for my undergraduate thesis.

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MOTTO AND DEDICATION

وَوَجَدَكَ ضَالا فَهَدَىى

"He found you lost and guided you (Ad-duha 93:7)"

Don't depend too much on anyone in this world. Because even your own shadow leaves you when you are in the darkness"

(Ibn Taymiyyah)

I dedicate this thesis for:

My beloved Mom, my beloved Dad

My dearest sisters and all my family

They are one and only reason why I go this far

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ABSTRACT

The aim of the study was to examine the determinants and outcomes of forward-looking disclosure. The determinants of forward-looking disclosure were solvability, profitability, liquidity, firm size, and sector type. Meanwhile, the outcomes were firm performance and market performance. The population of this research was all companies listed in Indonesia Stock Exchange and published their annual report in the year of 2012-2015. The total samples were 119 companies selected using purposive sampling. The data in this study was analyzed using Multiple regression analysis with SPSS 22. The result of this study demonstrated that profitability, firm size, and sector type positively affected on forward-looking disclosure. Meanwhile, leverage and liquidity negatively affected on forward-looking disclosure. However, there were no influence between forward-looking disclosure to firm performance. The limitation in this study is only focused on financial aspect of the companies. There are non-financial aspects can be used as proxies of firm characteristics and the outcomes of forward-looking disclosure.

Keywords: forward-looking disclosure, firm's characteristics, firm performance

ABSTRAK

Penelitian ini bertujuan untuk menganalisis determinan dan outcome dari pengungkapan forward-looking. *Determinan dari pengungkapan* forward-looking *adalah karakteristik perusahaan, yaitu solvabilitas, profitabilitas, likuiditas, ukuran perusahaan, dan tipe sektor. Sedangkan untuk mengukur* outcome *adalah kinerja perusahaan dan pasar. Populasi penelitian ini adalah semua perusahaan yang terdaftar di Bursa Efek Indonesia dan menerbitkan laporan tahunan pada tahun 2012-2015. Total sampel yang digunakan sebanyak119 perusahaan yang dipilih dengan menggunakan purposive sampling. Penelitian ini dianalisis dengan menggunakan analisis regresi berganda dengan SPSS 22. Hasil penelitian ini, untuk determinan, menunjukkan bahwa profitabilitas, ukuran perusahaan, dan tipe sector berpengaruh positif pada pengungkpapan* forward-looking. *Namun, tidak ditemukan adanya pengaruh antara pengungkapan* forward-looking *terhadap kinerja perusahaan. Keterbatasan penelitian ini adalah penelitian ini hanya focus pada aspek keuangan perusahaan. Terdapat aspek non-keuangan yang dapat digunakan sebagai alat ukur karakteristik perusahaan dan outcome dari pengungkapan* forward-looking.

Kata kunci: pengungkapan forward-looking*, karakteristik perusahaan, kinerja perusahaan*

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CHAPTER I

INTRODUCTION

This chapter explains about why this research conducted. The chapter will start with the background, followed by problem statement, research objective, research benefit and outline of the research.

1.1. Background

An annual report is one of the mandatory sources of information that should be provided by the company. This is stipulated in *Peraturan Otoritas Jasa Keuangan Nomor 29/ POJK.04/ 2016 Bab III angka 1* stated that "The listed public company is obligated to report the annual report to Bapepam or Financial Institution maximum four months after the reporting period ends". The regulation supports one of the 8 corporate governance principles in which the 6th is reporting with integrity.

The 6th Principle states that "The board should present a fair, balanced and understandable assessment of the organisation's financial, environmental, social and governance position, performance and outlook in its annual report and on its website". This statement inplied that an annual report is use by a company to present its accountability and transparency; therefore, the annual report is a vital element in developing communication between the company and its users.

According to Weygand *et al,* (2010), an annual report is published for internal and external users. The internal users are individuals inside the company who plan, organize, and run the business. Those include marketing managers,

production managers, supervisors, finance directors, and company officers. The other one, the external users, are individuals and organizations outside the company that need financial information about the company. There are three most common external users; creditors, investors, and government. Thus, the annual report provides company's financial condition and other information that will be communicated to shareholders, creditors, potential shareholders, and other parties.

Furthermore, the disclosed information relates also to sources that can be used by companies besides annual reports. Al-Najjar and Abed (2014) reported that a number of sources are might be used as an intermediary to share value-relevant information between the company and investors such as conference calls, direct communications with analysis, interim reports, and press releases.

Hussainey (2004) classifies the information published in the annual report into two categories: "backward-looking information" and "forward-looking information". Backward-looking information is a historical financial reporting of the company to measure management performance during the reporting period. Backward-looking information knows as financial statements of the company. Meanwhile, the forward-looking information is a disclosed information presented an overview of condition, business, and future prospects of the company provided by the management of the company for shareholders, investors, potential investors, and potential creditors (Alkhatib, 2014). In its implementation, the forms of the information can be described as qualitative, quantitative, financial, or non-financial information (Aljifri and Hussainey, 2007).

The forward-looking disclosure can be classified into two categories: mandatory disclosure and voluntary disclosure. The mandatory disclosure assigns companies to disclose both good and bad news; the higher the compliance, the higher the amount of both proprietaries and non-proprietaries information provided by the companies (Tsalavoutas and Dionysiou, 2014). Meanwhile, the voluntary disclosure allows companies to choose information to be disclosed in their financial statement (Healy and Palepu, 2001).

There are several motives for the company to disclose the forward-looking information as the disclosure mostly can reduce asymmetric information between two parties, shareholders and companies, to be well informed before making decisions (Alkhatib, 2012; Uyar and Kilic, 2012). Meanwhile, Beretta and Bozzolon (2004) suggest the inclusion of forward-looking information and sketch the risks profile of the company for information reporting framework to enrich the annual report. In contrast to the motives and advantages of providing forward-looking information in the annual reports, previous researchers have provided some arguments against the presence of them. First, Aljifri and Hussainey (2007) (cited from Kasznik, 1999) stated that, related to the future, there is uncertainty that might be hard to be accurately predicted, and this inaccurate might lead the companies to lawsuit. Second, the forward-looking information provided by the companies might give useful information to competitors that affect the competitive position of the company's products in the markets (Haley and Palepu, 2001).

Before making a decision, investors tend to use a lot of resources to assess companies' performance, among which the annual report as one of the most readily

available sources to be taken into account. The annual report provides all information about the firm performances, both financial and non-financial information. In the context of forward-looking information, the annual report contains prospects, the nature of the business, resources, risks and relationships, forecasted performance of the company, management's objectives and strategies, and other available financial or non-financial information (Menicucci, 2013). The level of this information would be important in estimating the extent to which the company's financial position, liquidity and performance may change in the future.

In particular, the previous researchers mostly focus on the level of disclosure of the forward-looking information with firm-specific characteristics. Research conducted by Aljifri and Hussainey (2007) regarding the determinants of the level of the disclosure forward-looking found that profitability and debt ratio variables have significant effect on the disclosure level. However, a research conducted by Elisa Menicucci (2013) stated that profitability has no significant relationship with the level of disclosure of the forward-looking information; while, the firm size and leverage are proved to have no significant relationship to the level of the disclosure of the forward-looking information.

A study by Uyar and Kilic (2012), about whether or not the voluntary disclosure level in listed Turkish companies are value-relevant in the capital market, found that profitability and firm size significantly positive affected firm value. The positive influence of firm size also found in study about voluntary disclosure quality (Scaltrito, 2016). Furthermore, Scaltrito (2016) explained that This significant influence happens because of the cost of information-retrieval will decrease by a

bigger company and potential benefits that follow. Conversely, research conducted by Aljifri and Hussainey (2007) and Smith *et al,* (2007) found that firm size is identified to have an insignificant relationship to the level of disclosure. In summary, the results indicate that the association between firm size and the disclosure of forward-looking information have interactive effect.

Leverage is one of financial firm characteristics that mostly used in the prior studies. Based in China, Lan *et al* (2013) examined the determinants and features of voluntary disclosure and found that leverage significantly positive affected voluntary disclosure. The case in Bahrain that examined determinants of corporate social and environmental disclosure also found a positive association between financial leverage and disclosure (Juhmani, 2013). However, Agyei-Mensah (2017) failed to find positive and significant relationship between leverage and disclosure of forward-looking information.

Liquidity is a company's ability to covered its short term liability. In association with forward-looking information disclosure, some studies found insignificant relationship among it (Lan *et al.,* 2013; Alsaeed, 2006; Barako *et al.,* 2006). Marshall and Weetman (2007) and Elshandidy et al. (2011) found that companies with high liquidity ratios tend to transmit positive signals to users with provide more risk information. Wallace et al. (1994) found a negative relationship between liquidity and disclosure in both listed and unlisted Spanish companies.

Sector type also has been considered as one of firm characteristics regarding the disclosure of forward-looking information. Research conducted by Aljifri and

Hussainey (2007) regarding the determinants of the level of the disclosure forward-looking found that sector type, is identified to have an insignificant relationship to the level of disclosure. Similarly, Alsaeed *et al.,* (2006) found insignificant correlation among sector type and the level of disclosure. However, a positive association among industrial sector and forward-looking disclosure in listed Jordanian companies has been found by Al-Khatib (2014).

Numerous research examined empirically the benefits of forward-looking information associated with company's future performance. The specific type of information to be examined is the proxy of firm performances: ROA as an internal firm performance. The investigation of Nelson (2005) related to the link among firm performance, CEO characteristics, and changing in corporate governance practices based on a large sample of US firms concluded that shareholders are more likely to approve an increase in the power of the board of directors as of better performing firms.

Research about the practices of forward-looking information with the company's characteristics as the proxy has been done by researchers in both developed and developing countries. However, limited number of research in the forward-looking information that focusing on both company's characteristics and its performance and also limited number of research that examined whether about the influence of firm characteristics on disclosure of forward-looking information or about the impact of forward-looking information on company's performances in developing countries are available.

This study is conducted in Indonesia, a developing country in western region of Asia, which has an open economy and expected to have a growth and bright prospects. Government's reform agenda to make headway on their infrastructure program should help boost private investment and business environment. This growth tends to make a big competition among companies to get investor's intention. This intention can be fulfilled by getting the overview of company's business in forward-looking disclosure.

A very limited number of studies have examined the impact of firm characteristics on the disclosure of the forward-looking information in the developing countries and no study yet has analyzed this research topic in Indonesia. Therefore, this paper extends the previous researches by analyzing the determinants and the outcome of the forward-looking information disclosure; although, the previous study has yet to analyze the relationship between the level of the forward-looking information and its outcomes. This study will be conducted in Indonesia, a developing country situated in the southeast region of Asia.

1.2. Problem Statement

Prior researches about forward-looking information in the annual report associated with the characteristics of the company have been conducted in both developed and developing countries. However, limited research in the forward-looking information focusing on both company's characteristics and their performance is available.

Forward-looking information disclosure mostly can reduce asymmetry of information between two parties, shareholders and companies (Alkhatib, 2012; Uyar and Kilic, 2012). Therefore, the companies which provide more forward-looking information can assist interested users or parties making, better informed before they make decisions. Based on the description and the introduction that have been discussed previously, this study seeks to answer the following questions:

1. Does leverage have positive impact on forward-looking information disclosure?

2. Does liquidity have positive impact on forward-looking information disclosure?

3. Does profitability have positive impact on forward-looking information disclosure?

4. Does firm size have positive impact on forward-looking information disclosure?

5. Does sector type have positive impact on forward-looking information disclosure?

6. Does forward-looking information disclosure have negative impact on firm performance?

1.3. Research Objective and Benefit

The purpose and contribution of this study are as follows:

1.3.1. Research Objective

This research aims to:

1. Analyze the empirical evidence of impact of leverage as determinant factors on forward-looking information disclosure.

2. Analyze the empirical evidence of impact of liquidity as determinant factors on forward-looking information disclosure.

3. Analyze the empirical evidence of impact of profitability as determinant factors on forward-looking information disclosure.

4. Analyze the empirical evidence of impact of firm size as determinant factors on forward-looking information disclosure.

5. Analyze the empirical evidence of impact of sector type as determinant factors on forward-looking information disclosure.

6. Analyze the empirical evidence of impact of forward-looking information disclosure on firm performance.

1.3.2. Research Benefit

The expected benefit from this study are as follows:

1. This study is expected to contribute to the literature of the theories related to the subject of this study; so that, the reader will understand what the meaning of the Determinants and Outcome of Forward-Looking Disclosure: Evidence from Indonesian Stock Exchange is.

2. Practical Contribution

   a. For Investor

   This study is expected to be used as consideration in making the right investment decisions for investors.

b. For Company Management

This research is expected to contribute to the company to be more attentive to the information given and can make the consideration of the company to implement and/or improve the forward-looking disclosure thoroughly.

c. For Further Researcher

This research is expected to add insight and knowledge to be used as an additional reference for similar studies and further research.

1.4.   Outline of the Research

This research refers to some prior studies on the topic of forward-looking disclosure which is based on predetermined systematic writing, which will facilitate the discussion in writing. This study is divided into five chapters consisting of:

Chapter I: Introduction

This chapter explains the reasons of the researcher choosing forward-looking disclosure as the topic of the research, problem statement that will be discussed in next chapter, purpose of and benefit from this research and the systematic of the research that be contained in this research.

Chapter II: Literature Review

This chapter reviews the relevance of the theories that will be used in variables and explanation of the concept used in this research. Furthermore, this chapter

describes some previous studies, framework, and hypothesis that will be tested in this research.

Chapter III: Research Method

This chapter describes the definition of variables, population, sample, research sources, collecting data method, and analysis used in this research.

Chapter IV: Result and Discussion

This chapter contains the description of the object used in this research, data analysis, and interpretation of the statistical results from the research hypothesis tested.

Chapter V: Conclusion

This chapter contains the final conclusions and limitations of the research conducted, and also the suggestion that might be considered for similar studies in the future.