Shedding Light on Voluntary Forward-Looking Information Disclosure:

An International Comprehensive Literature Review

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Abstract

The current study aims to review the global body of literature concerning Forward-Looking Information Disclosure (FLID). Previous studies on FLID were categorised and evaluated based on five distinct themes: antecedents, measurements, determinants, characteristics, and consequences. Within this investigation, we have recognised methodological concerns, prospects for future research, and implications. The highlighted concerns pertain to the measurements of FLID and the empirical models used in prior studies. Our review uncovers several areas that warrant further investigation. The present study contributes valuable insights to the accounting literature. These insights hold potential implications for researchers, investors, managers, regulatory bodies, and policymakers, as they can aid in improving information quality and promoting greater transparency in annual report narratives.

Keywords: Voluntary disclosure, Annual report narratives, Forward-looking information disclosure, governance, IFRS, Endogeneity.

1. Introduction

Two primary disclosure forms exist: mandated and voluntary (Dye, 1990). While mandated disclosures, such as interim statements, annual reports, and proxy statements, encompass the majority of financial reporting, management often holds onto additional information that is not required to be disclosed (voluntary disclosure), which can be valuable in assessing the prospects of a firm (Verrecchia, 2001). Investors need mandatory and voluntary disclosures to make informed decisions, with some voluntary disclosures being more beneficial than mandatory ones (Mohamed et al., 2019). Beyer et al. (2010) reported that voluntary disclosures contain a significant portion of the information that attracts the attention of capital market decision-makers.

According to Meek et al. (1995), voluntary disclosures are additional information that managers provide beyond requirements in an effort to offer relevant accounting and other information to annual report users to rationalise their decision. Md Zaini et al. (2020) stated that voluntary disclosure refers to any extra unregulated information voluntarily disseminated by management and can be helpful for both users and the company to understand performance. Hussainey (2004) found that the information in annual reports may be divided into two categories: backward-looking and forward-looking information (FLI). The variance between them is that while backward-looking information denotes the outcomes of historical financial events, FLI denotes current plans and forecasts that improve investors' and other beneficiaries' ability to predict and assess the future financial performance of a company.