РАЗДЕЛ 1
НАУЧНЫЕ ИССЛЕДОВАНИЯ И КОНЦЕПЦИИ

SECTION 1
ACADEMIC INVESTIGATIONS & CONCEPTS

THE DETERMINANTS OF FORWARD-LOOKING DISCLOSURE: A CORPORATE GOVERNANCE PERSPECTIVE

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Abstract

The main objective of this study is to explore empirically the corporate governance mechanisms in UAE that may affect the extent to which forward-looking information is disclosed. This study utilizes a sample of firms that are listed in either the Dubai Financial Market or the Abu Dubai Securities Market. It uses the accounting and market data available for 2007-2009. This study concludes that three of the corporate governance mechanisms [i.e., institutional investors; ownership (> 10%); debt ratio] have a negative impact on the level forward-looking information disclosure; whereas the governmental investors and ownership (5-10%) are found to have a positive effect on the level of forward-looking information disclosure. These results raise questions about the validity of the "active monitoring hypothesis", which states that the presence of institutional investors should increase the level of disclosure, and also about the agency argument which assumes that debt is a good mechanism to discipline management.

Keywords: Corporate Governance, UAE, Disclosure, Institutional Investors

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1. Introduction

This study examines the association between selected corporate governance mechanisms and the disclosure of information in corporate annual reports. It focuses on value-relevant information (i.e. forward-looking information) which has an effect on the decisions of those who use the information, especially investors. Such information is published voluntarily by companies in the United Arab Emirates (UAE) in their annual report narratives. Similarly, conformity with the corporate governance code is voluntary, and there were no compulsory rules for UAE companies to follow before April 2010. In this study, forward-looking information that is published voluntarily in annual report narratives (i.e., the chairman's report[1]) of UAE companies is examined. Examining the narrative reports provides a clear picture of the nature of information disclosed by UAE companies regarding their future prospects. This study is important and relevant to those who want to understand the association between corporate governance mechanisms and the level of information that is considered relevant to disclose. The results suggest that some corporate governance mechanisms have a significant relationship with the forward-looking information disclosure. A number of previous studies provide evidence that certain corporate

[1] The authors find that the UAE firms report the main forward-looking information in chairman's reports.

governance mechanisms lead to a high level of disclosure and transparency (Lakhal, 2005; Hussainey & Wang, 2012). Disclosing forward-looking information is essential for different stakeholders who need more relevant information about companies' future prospects (Preston, et al., 1996).

The importance of the present study is underlined by some critical incidents that happened in 1998 and 2006 in the UAE which led to huge financial losses. These events occurred because insufficient relevant information was available to different stakeholders when they had to make important decisions. Studies by Aljifri and Hussainey (2007), Aljifri (2008), and Alzarouni et al. (2011) reveal that the level of disclosure of relevant information is low among companies listed in the UAE.

The present study uses seven corporate governance mechanisms [institutional investors, governmental investors, block holder ownership (two different types of block holders), board size, dividend payout, and debt ratio] to examine the effect of different forms of governance on the level of forward looking information. The study finds that five corporate governance mechanisms have a significant effect on the level of disclosure. Two of them [governmental investors and block holder ownership (5-10%)] have a positive effect on the level of disclosure, while the remaining three mechanisms [institutional investors, block holder ownership (>10%), and debt ratio] have a negative impact on the level of disclosure. These results raise questions about the validity of the "active monitoring hypothesis", which states that the presence of institutional investors should increase the level of disclosure (Demsetz, 1983; Shleifer & Vishny, 1986), and also about the agency argument which assumes that debt is a good mechanism to discipline management.

This study adds to the limited literature on this topic in three aspects. First, the methodology used in this study improves the accuracy of scoring the forward-looking information by replacing software analysis (e.g. Nudist) that has been used in the literature (Hussainey et al., 2003; Aljifri & Hussainey, 2007) with manual content analysis. This approach reduces the level of confusion that can result from vague sentences which software cannot capture. Second, it is the first study to examine the relationship between corporate governance mechanisms and forward-looking information in a developing country like the UAE. Finally, although this study draws on data that only comes from the UAE, its results can be used by those countries that have similar socio-economic and political environments.

2. Background

The UAE is one of the fastest growing countries in the world and it is of great importance to world energy markets. The UAE is located in the Gulf and is a country of seven Emirates[2]. It has borders with Oman to the east, Saudi Arabia to the south, and shares sea borders with Qatar. It engages with the global economy and adopts all necessary international rules and laws. Therefore, it issued the corporate governance code in 2007[3] which was recently superseded and amended by the Ministerial Resolution No. 518 of 2009. The resolution is mandatory for companies that are listed in the UAE and is effective from April 2010. Companies must comply with Federal Commercial Law No 8/1984 and its amendments, and there is a draft of a new law which states that there will be fines of AED 50,000 for those companies that fail to comply with the corporate governance rules.

The financial reporting system in the UAE is supervised by four governmental bodies: (1) The Securities and Commodities Authority, (2) The Ministry of Economy, (3) The Central Bank, and (4) Dubai International Financial Centre. In addition, there is a professional body called the UAE Accountants and Auditors Association (AAA) which has no official role in regulating or shaping the financial reporting system in the UAE. The stock market in the UAE was started in 2000 and it includes the Dubai Financial Market and the Abu Dhabi Securities Market[4]. Since inception up to 2008, the two markets developed and became more active in terms of the number of IPOs and the number of listed companies, as well as market capitalization.

3. Prior research and hypotheses

The main aim for this study is to examine the key factors affecting forward-looking reporting in UAE. This section explores prior research relevant to our investigation and the related hypotheses. The research objective of this study is synthesized from the following two strands of literature. The first is related to the association between corporate governance and voluntary disclosures. The second focuses on the effect of firm characteristics on corporate voluntary disclosures.

3.1. Corporate governance and voluntary disclosures

The present paper uses a set of corporate governance mechanisms that are more likely to affect forward-looking information in UAE annual reports. In particular, it focuses on institutional investors, governmental investors, block-shareholders, board

[2]Abu Dhabi (the capital), Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm Al-Quwain.

[3]The "Security and Commodities Authority's Chairman's Decision No. 32/R for 2007".

[4]Dubai Financial Market was established on 26th March 2000 and the Abu Dhabi Securities Market established on 15th November 2000.

size and dividend policy as potential drivers for UAE companies decision to include forward-looking information in their annual reports. Next paragraphs discuss the development of the research hypothesis for each governance mechanism.

3.1.1. Institutional investors (i.e. banks, finance companies, insurance companies) are considered as the key players in the financial markets. They are the main collectors of savings and suppliers of funds to financial markets. Due to their large ownership stake, agency theory suggests that institutional investors have strong incentives to monitor companies' disclosure practices, as they often undertake an active role in monitoring management's performance (Jensen and Meckling, 1976). Consequently, extant research on the association between institutional investors and voluntary disclosure suggests that the higher the concentration of institutional ownership in a company, the higher the managers' motivation to disclose more voluntary disclosure in order to maintain investors' confidence in the company (El-Gazzar, 1998). Empirical research on the determinants of voluntary disclosure finds the expected positive relationship between institutional investors and voluntary disclosure in general (Mitchell et al., 1995; Bushee and Noe, 2000; Barako et al., 2006) and forward-looking disclosure in particular (Lakhal, 2005; Hussainey and Wang, 2012).[5] The positive association between voluntary disclosure and institutional ownership suggests that it may be costly for the company with a large number of institutional shareholders to disseminate forward-looking information to them through direct meetings. To a certain extent, these companies might consider the annual reports as the most efficient communication tool for conveying their forward looking information to their institutional investors. Based on the agency theory and the above-mentioned empirical research, we formulate our first research hypothesis as follows:

H1: *There is a positive association between institutional investors and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.1.2. Governmental investors are considered as one of the key participants in the stock market especially in the developing countries. Agency theory suggests that agency costs of government-owned companies are relatively high (Samaha and Dahawy, 2011). One natural response by these companies is to increase their level of voluntary disclosure in order to reduce any information asymmetry between managers and the owners. In addition, Makhija and Patton (2004) argue that government is likely to hold a large equity stake in the newly privatized firms because the plans were to complete the firm's privatization at a later time. Therefore, they expect that the government would prefer more disclosure by the firm in order to maximize its share value in the stock market. Due to the fact that government-owned companies are more visible to the public, extant empirical research finds that government-owned companies voluntarily disclose more information than non-government-owned companies (Eng and Mak, 2003; Abd-Elsalam and Weetman, 2003; Hassan et al., 2006). Based on the agency theory and the above-mentioned studies, we formulate our second hypothesis as follows:

H2: *There is a positive association between governmental investors and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.1.3. Block shareholding ownership is referred to as a situation in which a shareholder has an exceptionally large percentage of shares in a company (i.e. shareholdings of 5% or more). Agency theory suggests that firms with a dispersed ownership of shares (i.e. investors who own only a small percentage of shares in a company) will disclose more information to satisfy their investors' needs (Marston and Polei, 2004). On the other hand, investors with large stake in a company can obtain the needed information from their direct communication with the company (i.e. direct meeting with managers). As a result, a negative association between block-shareholdings and voluntary disclosure is expected. Prior research on the determinants of voluntary disclosure finds a negative association between block shareholding and voluntary disclosure (McKinnon and Dalimunthe, 1993; Schadewitz and Blevins, 1998; Marston and Polei, 2004; Haniffa and Cooke, 2002; Samaha and Dahawy, 2011; Samaha et al, 2012). Based on the agency theory and the above-mentioned studies, we formulate our third and fourth hypotheses as follows:

H3: *There is a positive association between block-shareholders who own 5%-10% of shares and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

H4: *There is a negative association between block-shareholders who own greater than 10% of shares and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.1.4. Board size represents the total number of executive and non-executive directors on the board of directors as of the annual meeting date during each fiscal year. Prior research on the association between board size and voluntary disclosure is mixed. On one hand, extant literature argues that large boards may be ineffective and hence less likely to be involved in the decision-making processes such as the decision to improve voluntary disclosure levels (Goodstein et al., 1994). In addition, Jensen (1993) and Yermack (1996)

[5] Lakhal (2005) finds a positive relationship between forward-looking disclosure and 'foreign' institutions only, but insignificant association between local/French institutions and forward-looking disclosure.

argue that communication and coordination related problems exist in large boards and negatively affect their effectiveness. They also argue that small boards are found to be more effective in monitoring the firm's managers. Empirical research on the determinants of voluntary disclosure finds a negative relationship between board size and voluntary disclosure in general (Willekens et al., 2005; Arcay and Vazquez, 2005; Cheng and Courtenay, 2006) and forward-looking information in particular (Lakhal, 2005).

On the other hand, prior corporate governance literature shows that larger boards are more effective (Willekens et al., 2005), and transparency is considered an indicator of effective boards of directors (Van Den Berghe and Levrau, 2004). Empirical research on the determinants of voluntary disclosure finds a positive association between board size and voluntary disclosure in general (Barako et al., 2006; Laksamana, 2008) and forward-looking information in particular (Hussainey and Al-Najjar, 2011; Hussainey and Wang, 2012). Based on the above mixed results, we formulate the fifth hypothesis as follows:

H5: *There is an association between board size and the extent of forward-looking information in annual report narrative sections of UAE companies.*

3.1.5. Dividend policy is considered as a key mechanism for reducing agency costs and also it substitutes the outside directorship on the board of directors (Al-Najjar and Hussainey, 2009). The association between dividend policy and forward-looking disclosure has received much attention in prior research. Hussainey and Walker (2009) find that forward-looking disclosure and dividends are substitute forms of communicating value-relevant information to investors. As explained by Deshmukh, 2005, these findings are in line with signaling theory which suggests that firms with higher levels of asymmetric information (i.e. lower levels of future-oriented information) are more likely to pay higher levels of dividends to signal their future prospects to current and potential investors. However, these findings are not in line with pecking order theory which suggests that firms with higher levels of asymmetric information (i.e. lower levels of future-oriented information) are more likely to be underinvested. To control the underinvestment situation, these firms are more likely to lower their dividends. Research in developed countries finds a positive association between information asymmetry and dividends which is consistent with signaling theory. Using levels of voluntary disclosure as a proxy for information asymmetry, Hussainey and Al-Najjar (2011) and Hussainey and Wang (2012) find a positive association between dividends and level of forward-looking information in annual report narrative sections. Using the number of analysts following firms as a proxy for information asymmetry, Deshmukh (2003, 2005) and Li and Zhao (2008) find that dividend payments are lower in US firms with more information asymmetry. In addition, Basiddiq and Hussainey (2012) find a negative association between asymmetric information and UK dividend policy. In the present paper, we test to see which theory supports the association between dividend payments and forward-looking disclosure in UAE. Therefore, we formulate the sixth hypothesis as follows:

H6: *There is an association between dividend payout ratio and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.1.6. Debt ratio is also expected to be positively related with levels of corporate disclosure based on signalling theory. Jensen and Meckling (1976) argue that highly leveraged firms have higher monitoring costs. A potential response of these highly leveraged firms to reduce these costs is to disclose more forward-looking information in their annual report narratives in order to convey value-relevant information to satisfy creditors' needs. Wallace et al. (1994), Willekens et al. (2005), Aljifri and Hussainey (2007), Barako et al. (2006) and Hussainey and Wang (2012) find a positive association, suggesting that high debt ratio leads to higher risk. Firms are more likely to increase their levels of corporate disclosure. Such increase is expected to reduce financing costs and the required risk premiums in the required rates of return. On the other hand, Alsaeed (2006) argues that creditors may share private information with their debtors and hence less information will be available via the formal financial communication channels (i.e. annual reports). Empirically, Bharath *et al* (2009) find a positive association between debt ratio and information asymmetry which suggests a negative association between debt ratio and voluntary disclosure (taking into account the fact that voluntary disclosure and information asymmetry are negatively associated). Because of this mixed results, the relation between debt ratio and forward-looking voluntary disclosure remains an empirical issue to be addressed in the present paper. Therefore, we hypothesise that:

H7: *There is an association between debt ratio and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.2. Disclosure and firm-specific characteristics

In the present study, we examine the effect of two firm-specific characteristics on forward-looking disclosure. In particular, we examine the extent to which firm size and profitability affect the firms' decision to voluntarily disclose forward-looking information in annual reports narrative sections.

3.2.1. Firm size is one of the most widely used variables in prior research on determinants of corporate reporting. Signalling theory suggests a positive relationship between voluntary disclosure and firm size. It suggests that large firms attract more analysts and are subject to greater demand for value-relevant information by analysts and their investors. Additionally, large firms have sufficient funds to cover the cost of producing information for annual reports users (Hassan et al., 2006), while small firms may suffer from competitive disadvantages if they increase levels of voluntary disclosure (Alsaeed, 2006). Prior empirical studies consistently find a positive association between levels of disclosure and firm size (Firth, 1979; Lang and Lundholm, 1993; Hossain et al., 1995; Hassan et al., 2006; Alsaeed, 2006). This indicates that larger companies follow better disclosure practices (Ahmed and Courtis, 1999). On the other hand, it could be argued that managers of large firms have incentives for reducing the level of disclosure, more specifically the level of forward-looking information, to avoid litigation costs (Field et al., 2005). In this case, a negative association between disclosure and forward-looking information could be hypothesised. In a UAE context, Aljifri and Hussainey (2007) find no association between firm size and forward-looking disclosure. Because of these mixed results, the relation between firm size and forward-looking voluntary disclosure remains an empirical issue to be addressed in the present paper. Therefore, we hypothesise that:

H8: *There is an association between firm size and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

3.2.2. Profitability is one of the potential drivers of voluntary disclosure. Signalling theory suggests that profitable firms have an incentive to disclose more information to signal their favourable results to stock market participants. Therefore, one can anticipate that profitable firms are more likely to disclose forward-looking information in their annual report narratives. In their meta-analysis, Ahmed and Courtis (1999) find that the empirical evidence on the association between disclosures and profitability is mixed. For example, Li *et al* (2008) find a positive association between profitability and voluntary disclosure, while Celik et al. (2006), Hoitash et al. (2009) and Hussainey and Al-Najjar (2011) find a negative association between the two variables. It is worth noting that Schleicher et al. (2007) find that the publication of forward-looking information in annual report narrative sections is considered a key source of information for unprofitable firms, but not for profitable firms. Therefore, one could anticipate that unprofitable firms will be motivated to disclose more forward-looking information. In the UAE context, Aljifri and Hussainey (2007) find a negative association between profitability and forward-looking disclosure. Based on these arguments and in line with Aljifri and Hussainey (2007), we formulate the seventh hypothesis as follows:

H9: *There is a negative association between profitability and the extent of forward-looking disclosure in annual report narrative sections of UAE companies.*

4. Methodology

4.1. Sample and data collection

Data were collected from the annual reports published in the years 2007 to 2009 for the listed companies in the Dubai Financial Market and the Abu Dhabi Securities Market. The sample used in this study includes 102 companies which constitutes 84 percent of the total listed firms in the two markets. The choice of companies was based on the availability and consistency of data over the three years which helps to pool the data. It should be noted that the data were collected manually. The reason for choosing the years 2007 to 2009 is that the first draft of corporate governance was released in 2007 which motivated listed companies to start implementing it. It is believed that most of the companies began to improve their corporate governance mechanisms voluntarily starting from 2007, although these mechanisms were employed by some companies earlier than 2007. The research methodology is based on the study of Aljifri and Hussainey (2007). Table 1 summarizes the measurement of the independent variables used in this study.

Table 1. Measurement of Independent Variables

Independent Variables	**Measurement**
Institutional investors	The proportion of shares held by institutional investors
Governmental investors	The proportion of shares held by governmental investors
Ownership (5-10%)	The number of block holders who own 5%-10% of the shares[6]
Ownership (>10%)	The number of block holders who own more than 10% of the shares
Board size	The number of directors on the board
Dividend payout ratio	The proportion of dividends to net income
Debt ratio	The proportion of total assets to total liabilities
Firm size	The natural logarithm of total assets
Profitability	The proportion of net income to assets

[6] The proportion of ownership is not available.

4.2. Manual content analysis

Each annual report was examined manually, which is a different approach from the one that has been used in previous studies (Aljifri and Hussainey, 2007, and Hussainey at al., 2003). Previous research has used different software (e.g. NUDIST) to capture the forward looking information. The reason for selecting manual content analysis is because of its accuracy (Henry and Leone, 2009). Two factors prompted the adoption of manual content analysis: (1) the short length of the section (chairman's report) that contains the relevant information, and (2) the relatively small size of the study sample. These considerations suggested that manual coding was practicable, and it provides more flexibility to read all relevant sections carefully and make sure that all relevant information is captured from the annual reports.

To identify the sentences that provide forward-looking information, this study follows the same list of keywords used by Hussainey et al. (2003) and Aljifri and Hussainey (2007). The keywords are: accelerate, anticipate, await, coming (financial) year(s), coming months, confidence (or confident), convince, (current) financial year, envisage, estimate, eventual, expect, forecast, forthcoming, hope, intend (or intention), likely (or unlikely), look forward (or look ahead), next, novel, optimistic, outlook, planned (or planning), predict, prospect, remain, renew, scope for (or scope to), shall, shortly, should, soon, will, well placed (or well positioned), year(s) ahead. These keywords imply financial and non-financial information such as next year's earnings, expected revenues, anticipated cash flows, current/expected risks, and uncertainties. Only those sentences whose context refers to forward-looking information are captured. To avoid any subjectivity in this process four research assistants and one of the authors were involved in reading the relevant annual reports (i.e. the chairman's sections).

4.3. The model

The extent of disclosure was measured as the ratio of the value of the number of forward-looking sentences a firm discloses divided by the total number of sentences in its narrative sections.

The disclosure index can be calculated as follows:

$$TDS = FWD / TD \tag{1}$$

where: TDS = Total disclosure score, FWD = Total forward-looking sentences disclosed, TD = Maximum sentences disclosed for each company

A panel data analysis was conducted and a pooled-OLS regression was used to examine the hypotheses of this study as outlined above. The model explains the effect of some selected corporate governance mechanisms on the level of disclosure of forward-looking information. The model can be stated as follows:

$$TDS = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \\ + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \varepsilon \tag{2}$$

where:

X_1 = Institutional investors
X_2 = Governmental investors
X_3 =Ownership (5-10%)
X_4 = Ownership (10%)
X_5 = Board size
X_6 = Dividends payout ratio
X_7 = Firm size
X_8 = Debt equity ratio
X_9 = Profitability
ε = Error term

5. Results and discussions

Table 2 presents the minimum, maximum, mean and standard deviation for the continuous variables employed in this study. It reveals a broad range of variation between these variables. Regarding institutional investors, the range is from 0.01 to 0.99 with a mean of 0.43 and standard deviation of 0.26, while the governmental investor variable ranges from 0.00 to 0.78 with a mean of 0.15 and standard deviation of 0.19. Block holder ownership (5-10%) ranges from 0 to 7 with a mean of 2.88 and standard deviation of 1.70, whereas block holder ownership (> 10%) ranges from 0 to 5 with a mean of 1.56 and standard deviation of 0.92. The board size variable ranges from 3 to 19 with a mean of 7.93 and standard deviation of 2.27. The dividend payout ratio ranges from 0.00 to 0.59 with a mean of 0.16 and a standard deviation of .18. For the debt ratio variable, the range is from 0.00 to 0.94 with a mean of 0.49 and standard deviation of 0.26. The assets (in logarithms) range from 16.68 to 26.36 with a mean of 21.79 and a standard deviation of 1.88. The table shows that the profitability variable ranges from 0.01 to 0.30 with a mean of 0.07 and standard deviation of 0.05. Finally, the table also presents additional information about the forward-looking information, which ranges from 0.00 to 0.44 with a mean of 0.09 and a standard deviation of 0.08.

Table 2. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Institutional Investors	.01	.99	.43	.26
Governmental investors	.00	.78	.15	.19
Block holder ownership (5-10%)	.00	7.00	2.88	1.70
Block holder ownership (> 10%)	.00	5.00	1.56	.92
Board size	3.00	19.00	7.93	2.27
Dividend Payout Ratio	.00	.59	.16	.18
Debt ratio	.00	.94	.49	.26
Firm size*	16.68	26.36	21.79	1.88
Profitability	.01	.30	.07	.05
Percentage of relevant information *N = 306*	.00	.44	.09	.08

*Company size is measured by the natural logarithm of assets in the regression model used in this study.

Table 3 shows that the correlation between each of the independent variables is not high. The highest correlation (0.613) was found between debt ratio and size (assets), which is acceptable. Table 4 also presents the tolerance values, which are all above 0.10 which confirm that the multicollinearity problem is not severe (Menard, 1995).

Table 4 shows that the coefficient of determination (R^2) is equal to 59 per cent and the adjusted R^2 is equal to 43 per cent, which is a very acceptable result. The table also shows that the model reaches statistical significance where the p-value is < .01 and the F test statistic = 3.47.

The table presents the contribution of explanatory variables to the model through the regression coefficients and their p-values. The table indicates that five variables are found to have a significant effect on the level of forward-looking information disclosure. These variables are the institutional investors ($p < 0.05$), the governmental investors ($p < 0.05$), both block holder ownerships ($p < 0.05$), and the debt ratio ($p < 0.05$). Three of these variables [institutional investors, ownership (> 10%), and debt ratio] have a negative impact on the level of forward-looking information disclosed. However, governmental investors and block holder ownership (5-10%) have a positive effect on the level of forward-looking information disclosed.

For the other variables (board size, dividend payout ratio, firm size, and profitability) the results reveal that these variables have no significant effect on the level of disclosure of forward-looking information. This indicates that the four variables are less important in the model. In other words, they do not make a strong and unique contribution to explaining the level of forward looking information disclosed. On the other hand, institutional investors, governmental investors, ownership (less and more than 10%) and the debt ratio have a significant effect on the level of forward looking information disclosed.

In this study, institutional investors are found to have a significant impact on the level of disclosure. Institutional investors, by their nature, are expected to monitor companies actively and efficiently. However, the results suggest that institutional investor in the UAE have a negative and significant effect on the disclosure level, and this result does not supports the "active monitoring hypothesis" put forward by Demsetz (1983) and Shleifer and Vishny (1986). This raises a question about the failure of institutional investors in the UAE to play an active role, since they do have financial incentives that arise because of their high share in UAE companies (see Table 2). It is important to mention here that institutional investors are intermediaries for other shareholders and may need to design their own mechanisms of governance.

This paper documents the fact that governmental investors are found to have a positive and significant effect on the level of forward looking information disclosed. One possible explanation for this result is that governmental investors are long term investors who should improve the level of disclosure (Eng and Mak, 2003). In addition, governmental investors are more concerned about social and economic goals (Mak and Li, 2001), which makes them more responsible towards the public in ensuring more transparency and disclosure.

The paper also reports that block-holder ownership (less and more than 10%) has the expected relationship with the level of disclosure. For block-holder ownership that ranges between 5-10%, the relationship with the level of disclosure is positive and significant. This result is supported by the agency theory, which assumes that firms with spread ownership of shares disclose more information to meet the needs of their different shareholders (Marston and Polei, 2004). However, for block-holder ownership that is more than 10%, the relationship with the level of disclosure is negative. This result is consistent with the studies of McKinnon and Dalimunthe (1993), Schadewitz and Blevins (1998), Marston and Polei (2004), Haniffa and Cooke (2002), Samaha and Dahawy (2011) and Samaha et al. (2012).

The negative and significant effect of debt ratio on the disclosure proves that the agency argument that debt disciplines management is not valid here. This is consistent with those studies that reveal that debt works inversely and appears to be a weak corporate governance mechanism (Weir at al., 2002; Bohren & Odegaard, 2003). However, a number of studies find that debt is a good corporate governance mechanism that puts positive pressure on managers to act efficiently and enhance transparency, which should motivate them to increase the value of their companies (see for example, Larcker et al., 2004). Regardless of the agency costs that may affect the efficient role of debt as a good corporate governance mechanism, strong financial markets can use debt to discipline managers and reduce their opportunistic behaviour, and that will improve the level of disclosure of financial information that is relevant to different stakeholders. In short, this result indicates that financial markets in the UAE are not efficient enough to make debt an effective mechanism of corporate governance, and a lever to enhance disclosure.

Three variables (board size, dividend payout ratio, and profitability) are found to have a negative but insignificant effect. Board size was expected to have a positive effect on the level of disclosure as it is considered one of the most effective corporate governance mechanisms (Huther, 1997; Eisenberg et al., 1998). A number of studies have found that board size is the strongest monitoring mechanism, and reduces agency problems (Lipton and Lorsch, 1992; Jenson, 1993). The results of this study show that the relationship between board size and the level of disclosure is negative, although not significant. These results are consistent with those of Goodstein et al. (1994), Jensen (1993) and Yermack (1996). In the UAE, it may be that big board of directors creates difficulties in coordination and communication among board members. This issue may require more investigation and policy makers in UAE should direct more attention to the role of boards of directors. The dividend payout ratio is found in this study to have a negative relationship with the level of disclosure. This result can be explained, like the effect of profitability, in relation to the managers' reluctance to publish information, when they know that current payouts have positive impact on their company's value. Regarding profitability, it is found to have a negative relationship with disclosure. These results are to some extent consistent with the literature. For example, Singhvi and Desai (1971) state that companies with high profitability disclose more information to increase investors' confidence. However, Wallace and Naser (1995) show that managers in highly profitable companies disclose less information. Therefore, the results from previous studies are mixed. However, one reasonable explanation of a negative relationship between the level of disclosure and profitability is that managers in the UAE are not motivated to disclose forward looking information so long as their current earnings are high. Publishing forward looking information might expose them to litigation costs if there were significant deviations between predictions and actual results (Field et al., 2005). This may happen as there is no clear regulation about the unaudited sections (i.e., chairman's report) in annual reports.

It is found in this study that firm size has a positive, although not significant, relationship with the level of disclosure. This result was expected as big companies have the necessary resources to disclose more information (Hassan et al., 2006). In addition, big companies are more motivated to increase their disclosure level to reduce their agency costs (Watts & Zimmerman, 1983; Alsaeed, 2006). The fact that the effect of firm size on the level of disclosure in the UAE is not significant may be interpreted as meaning, as mentioned above, that big companies are more concerned about litigation costs that may arise from disclosing forward looking information (Field et al., 2005).

Table 3. The correlation matrix for the independent variables

	Institutional Investors	Governmental investors	Shareholders who owns from 5-10% of the shares	Shareholders who owns more than 10% of the shares	Board Size	Dividends Payout	Firm Size	Debt Ratio	Profitability
Institutional Investors	1								
Governmental investors	-.214	1							
Shareholders who owns from 5-10% of the shares	-.036	-.033	1						
Shareholders who owns more than 10% of the shares	-.062	.017	.589**	1					
No. of board members	-.043	.058	-.267	-.289	1				
Dividends Payout	.266*	-.104	-.188	-.086	-.201	1			
Firm Size	.069	.270*	-.396**	-.242	.325**	.119	1		
Debt Ratio	.031	.079	-.049	.003	.108	.058	.613**	1	
Profitability	-.140	.090	.162	.029	-.018	-.179	-.231	-.323*	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 4. Determinants of Forward-looking Disclosures

Descriptions	**Unstandardized Coefficients**	**Sig. *P* value**	**Tolerance**
(Constant)	.337	.444	
Institutional Investors	-.217	.023	.315
Governmental Investors	.409	.020	.786
Ownership (5-10%)	.183	.017	.340
Ownership (> 10%)	-.261	.018	.212
Board size	-.024	.159	.438
Dividend payout ratio	-.008	.101	.626
Debt ratio	-1.861	.027	.428
Firm size	.086	.106	.392
Profitability	-1.422	.079	.849
R	**R2**	**Adjusted R2**	**F**
.77	.59	.43	3.47

6. Conclusions

This study examines empirically the determinants of forward looking information disclosure in UAE companies, using a selection of corporate governance mechanisms. The data used in this study provide a particularly appropriate source for exploring this issue, especially for those countries that have similar socio-economic conditions, problems and needs. The findings of this study, using UAE data for the years 2007 to 2009, indicate that the level of disclosure is not high. This is an important message for policy makers in the UAE, and suggests they should start working toward regulating the chairman's report section in annual reports, specifying that it should include enough relevant information to satisfy the needs of different stakeholders. In addition, the findings indicate that the corporate governance mechanisms used in this study have a significant effect on the disclosure level in UAE companies. The negative effect of institutional investors, among other variables, indicates inactive stance of this important category of shareholders. This suggests that a careful examination should be made of this issue, because a high percentage of shares is held by institutional investors in the UAE. Encouraging these investors to be active might strengthen corporate governance mechanisms and consequently enhance the quality of financial reporting. These findings are important because of the insight they provide into the effective role of corporate governance mechanisms in improving the level of forward looking information, without which users of financial information face difficulty in making appropriate decisions. It is important to note that this study finds that two mechanisms (governmental investors and block holder ownership, 5-10%) are operative and have a positive effect on the level of forward looking information disclosed.

This paper does not include other corporate governance mechanisms, such as board independence and audit committees, as these data are not available for the period covered by this study. One of the challenges faced by this study was the manual collection of data. This requires labour intensive work and time consuming efforts on the part of the researchers. As a result, the time series of this study was limited to three years. However, new corporate governance rules were introduced in the UAE with effect from April 2010, adding more years to the time series after 2009 might not improve the reliability of the present study.

This study contributes to both the corporate governance literature and the literature on the disclosure of forward looking information. The results of this study illuminate the relationship between the corporate governance mechanisms and the disclosure of forward looking information. It is found that companies with a high percentage of governmental investors and block holder ownership (5-10%) have a higher level of disclosure of forward looking information compared with those that have high percentage of institutional investors, block holder ownership (> 10%), large boards and high debt ratios. Policy makers and other users of financial information may find these results useful and work to implement different corporate governance mechanisms and improve the quality and quantity of financial information disclosed. This will help to establish a good corporate governance code that is adapted to conditions in the environment of the UAE, and which will better serve financial information users. Future research should examine further the different effects of the two levels of block holder ownership examined in this study on the level of disclosure. Future research should also include more mechanisms of corporate governance (e.g., outside directors and managerial ownership) as it is expected that significant improvements will be made in the corporate governance structures in the UAE in the near future.

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