

FORWARD-LOOKING QUANTITATIVE INFORMATION IN ITALIAN LISTED FIRMS. EMPIRICAL EVIDENCE IN 2006-2010

*Tutino M. *, Regoliosi C. **, D'Eri A. ****

Abstract

The topics of voluntary disclosure of firm is an open debate. Literature has been variously focused on different path take into account the Stakeholder Theory (Freeman, 1984). In this paper we deal with an emerging issue related to the IASB document "Management Commentary. A framework for presentation". In particular, objective of the research is to provide evidence on the potential relations between financial and governance-related variables with measures of the existence and quality of forward-looking information in the Annual Reports. Adopting a content analysis approach with the help of statistical analysis, we considered annual disclosure reports of a sample of 218 Italian industrial listed firms in the period 2006- 2010. We found positive correlations between forward looking related variables and other debt related, asset related, profit and loss related and governance variables.

Keywords: Management Report, Management Commentary, IFRS, IASB, Italian Market

JEL Classification: G14, M42, M43

* *Roma Tre University*

Email: marco.tutino@uniroma3.it

** *Roma Tre University*

Email: carlo.regoliosi@uniroma3.it

*** *Corresponding author. Roma Tre University*

Email: alessandro.derri@uniroma3.it

1 Introduction

Within the set of documents that traditionally Italian listed companies must produce in compliance with mandatory rules, codes of conduct or common practice, the Management Discussion and Analysis (MD&A) report has always been the most de-structured element. In fact, the primary function of the MD&A report is to provide an overall picture of the business performance achieved during the reporting period on the basis of summarized economic results and with reference to the impact of the reporting entity's activities on the broader business environment it operates in; as a consequence, this report combines in the same place information which are different by nature (i.e. CSR-related, Environmental Reporting, future business perspectives) and format (i.e. narratives as well as raw figures and point or range estimates) and this results in a document whose characteristics largely vary between different preparers.

In this context, the Legislative Decree n. 32/2007 took a step forward in trying providing a minimum required level of information. Since the MD&A report, as mentioned, is still a document

presenting "general aspects" of the business of a firm, some specific key elements have been identified and made "mandatory" by the Decree 32/2007. However, the Decree does not mandate a specific disclosure content for any of these mandatory elements.

In fact and for example, one of the major points of "generality" is reported in the Italian Civil Code (art 2428, paragraph 6, comma 2), which introduces the "predictable outlook of operations" as mandatory information. In the domestic conceptual framework, the Annual Report is not only a statement of backward information on "past operations" since it is prepared in a "going concern perspective" (this focus is strengthened in the IAS-IFRS framework). Consistent with this evidence, it can be useful that even the MD&A report can be prepared adopting the same perspective.

However, without this mandate, no detailed requirements are provided for by the Italian legislator, nor by the Italian standard setter. So that, while companies are mandatory to disclose forward-looking information on the business, no guidelines on this class of information have been expressly provided, either by the legislation or by

the Italian accounting standard setter, the Organismo Italiano di Contabilità (here and after, OIC).

Differently, in the IASB document "Management Commentary. A framework for presentation" (December 2010) – a guide for Preparation of the MD&A that is a similar document as of management report prepared by Italian listed companies – the topic of the "forward-looking information" is carefully analyzed. The IASB conceptual framework underlines that "Explanations of management's perspective of the entity's direction, targets and prospects, in Additions to explanations of past events, can help users of the financial reports to develop expectations about the entity from its past performance and current state" (IASB 2010, par. BC 38).

In the traditional perspective of the IFRS financial statements firm disclosure has to be useful and verifiable by investors. So that, since "forward-looking information might present an over-optimistic picture of the entity" (IASB 2010, par. BC 39), the IASB suggests that "Management should disclose the assumptions used in providing forward-looking information" (IASB 2010, p. 18).

2 Objective of the paper

Given the above, the paper presents the "state of the art" on the disclosure provided in the MD&A Report. We considering a five year period before the issuance of the IASB document "Management Commentary. A framework for presentation". In particular, the main objective of the research is to provide evidence on the potential relations between financial and governance-related variables with measures of the existence and quality of forward-looking information in the Annual Reports of a sample of Italian firms listed in the period considered. Even if it there's no compulsory ways to provide this kind of information for Italian listed companies, this MD&A section represents a useful framework to orient the content of management report.

3 Literature review and hypothesis development

3.1 The key role of disclosures: a look at literature

In modern capital markets, financial disclosures – either voluntary or mandatory – are a means of solving information asymmetry (Akerlof 1970) and agency-related (Jensen and Meckling, 1976) issues. "The optimal allocation of resources between savers and entrepreneurs is critical to the efficient functioning of any economic system. A two-stage relationship occurs between these two

categories of economic operators: initially, a natural information asymmetry exists whereas, on one hand, entrepreneurs have first-hand information regarding the actual and expected value of their business, and in their intent to attract household financial resources may overstate this value; on the other hand, savers necessarily have to rely on entrepreneurs to gather the information they need in order to make their investment decisions. Once entrepreneurs have secured these resources they are able, under certain circumstances, to expropriate these savings and manage them to achieve their own economic objectives which may differ from those of the savers." (Healy and Palepu 2001, p.407).

Healy et al. (2001) in their literature review on various research streams arising from voluntary and mandatory disclosures-related issues state that: "The information and agency frameworks raise a number of important questions for financial reporting and disclosure researchers. These include questions on (i) the role of disclosure and financial reporting regulation in mitigating information and agency problems, (ii) the effectiveness of auditors and information intermediaries as a means of increasing the credibility of management disclosures and uncovering new information, (iii) factors affecting decisions by managers on financial reporting and disclosure, and (iv) the economic consequences of disclosure." (p. 410).

Verrecchia 2001 provides a taxonomy of accounting literature on disclosures by identifying the following three categories: "association-based disclosure", "discretionary-based disclosure" and "efficiency-based disclosure". Dye (2001) makes a distinction in the disclosure literature into mandatory disclosure and voluntary disclosure. Particularly the latter deals with "a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favorable to the entity, and will not disclose information unfavorable to the entity" (p. 184). Al-Razeen and Karbhari (2004) provide a wider taxonomy of annual corporate disclosure distinguishing into mandatory disclosures, more-in-depth mandatory disclosures, which is information that exceeds the minimum mandatory requirements, and other voluntary disclosures.

Over the years, academics, accounting standard setters, professional bodies and other international organizations (AICPA 1994, ACCA 1999, OECD 2011, CICA 2001, ICAEW 2000, FASB 2001, IASB 2010, NZICA 2011, FASB 2012) have devoted significant efforts into trying building some degree of consistency between mandatory and voluntary disclosures (including corporate social responsibility disclosures), trying

to discipline in particularly the voluntary information contained in the MD&A reports in order to make information disclosed, voluntary and mandatory, more useful for each class of stakeholders. Particularly, literature on voluntary disclosures has investigated, on one hand, how different levels of disclosures – both in terms of volume and quality – are driven by entity-specific factors and stakeholder-management policies; and, on the other hand, what is the relationship between these disclosures and analysts forecasts and future earnings. In the context of Stakeholder Theory (Freeman, 1984), the presence of voluntary disclosures is a signalling element that may suggest how an entity addresses the requests of the different interested parties it deals with. The basic concepts of this theoretical framework, especially for what concerns social and environmental disclosures, were further elaborated into the Legitimacy Theory (Suchman 1995) which holds that entities are bound to the broader community they belong to by a social contract which they need to comply with and which influences their disclosure policies. In general terms, voluntary disclosures include two macro categories of information sets:

- (i) disclosures which are included in regulated annual reports statements (financial statements, footnotes, MD&A, etc.); and
- (ii) disclosures provided through voluntary investor communication, such as analysts' presentations, press releases and other non-regulated corporate reports.

3.2 A specific focus on voluntary disclosures

In this work, we focus our attention on the former group of above mentioned disclosures. Looking at Annual Reports, instead of press releases or other sources of voluntary corporate communication, is consistent with the approach taken in main stream literature (Botosan 1997, Lang and Lundholm 1993) where Annual Report MD&A disclosures have proved to be consistent with other disclosure communication means. Moreover, using Annual Reports ensures that voluntary information is consistent – at least in general terms – with the audited financial statements.

Particularly, in this paper we consider the voluntary content of mandatory disclosures by analysing quantitative forward-looking information of Italian listed firms reported in the section of the annual MD&A statement. In this section, top management discusses the "foreseeable evolution of the business" (translation of "Evoluzione prevedibile della gestione" as reported in Italian financial statements). This is somehow a peculiarity in the 'world' of voluntary

disclosures: Italian legislator asks to top management to provide information on the future prospects of the business. Nevertheless, he does not provide any guidelines on 'how' to say it nor 'what' to disclose. Due to this uncertainty on the minimum content to provide in order to be compliant with Italian mandatory disclosure framework, and in order to map the "state of the art", we analyzed the characteristics of firms providing differing levels and types of disclosures in this section of the MD&A report. So that, our research follows the path of previous literature which generally focuses on searching the main drivers of forward looking voluntary disclosures.

Focusing on *voluntary* disclosure, some authors (Tarca and Seah 2006, Tarca et al. 2011) have analyzed the association between different regulatory frameworks and the type (e.g. forward-looking vs. historical, financial vs. non-financial and quantitative vs. qualitative), quantity and quality of these disclosures. Beretta and Bozzolan (2008) note that quantity and quality of voluntary disclosures are generally considered as closely intertwined so that the former determines the latter. Authors provide more in depth investigation on the qualitative aspect of disclosures, concluding that "*disclosure is of high quality when it is positively associated with accuracy and negatively associated with the dispersion of analysts' estimates*" (p. 20).

These findings show that voluntary disclosure, when located both in the MD&A and in other parts of companies' Annual Reports, plays a key role in helping analysts and other users of financial statements in better interpreting the content of the "raw numbers" reported in the statements. The importance of investigating the relationship between the quantitative information disclosed by companies is also testified by the effect that the degree of disaggregation of the information being presented and their accuracy has on analysts' judgement and their alignment with management's future expectations (Lansford et al. 2013). Also previous literature has addressed the existing relationship between the existence of discretionary disclosures and the nature of the information to disclose (favourable vs. unfavourable), whereas a manager "*decides to either release or withhold*" financial information "*on the basis of the information's effect on the asset's market price*" (Verrecchia 1983, 2001).

Verrecchia also recalls that: "*The idea that the possessor of superior information or insight will signal what he knows either directly or through his actions to achieve some economic benefit has been studied by a number of economists in a variety of institutional settings*" (p. 180). Particularly, earlier contributions have qualified discretionary disclosures in terms of

"good" or "bad" news and tried to identify whether any delays in reporting financial information (either mandatory or voluntary) were associated to some extent to the nature of the information itself (either good or bad) (Ball and Brown 1968).

In general, according to Barth et al. (1997) previous literature suggests that "*firms have incentives to disclose favorable and unfavorable information to investors, because such a disclosure policy, ceteris paribus, increases the value of the firm*" (p. 41). Also, Dye (1998, 2001) investigate voluntary disclosures from the investor's point of view, in the context of a "*a model of trilateral information asymmetry, with investors potentially ignorant of what the firm knows, the firm ignorant of what investors know, and investors ignorant of what other investors know*" (p. 261). Lee (2007) shows that a significant association exists between the a firm's (or a group of firms') ownership structure and the level of voluntary disclosures, particularly "*the greater the separation of cash flow rights [i.e. ownership] from control rights [i.e. voting rights], the greater the incentives of the controlling owner to expropriate the wealth of minority shareholders because the controlling owner receives the entire benefit of private rent extraction, but only bears a fraction of the cost. Thus, controlling owners have greater incentives to reduce firm-level voluntary disclosure to hide their private benefits of control*" (p. 394).

Also, previous studies on voluntary disclosures have shown that increasing external financing needs lead to higher level of voluntary disclosure to reduce information asymmetry (Frankel et al., 1995; Healy et al., 2001). Lang and Lundholm (1993) consider six potential explanatory variables grouped into three categories (performance, structural and offer variables) to explain the determinants of the level of voluntary disclosures.

Other studies examine the association between corporate disclosure and corporate governance related characteristics, such as corporate ownership, type of ownership rights and composition of the board of directors. Considering the hypothesis that managerial ownership may mitigate agency costs and reduce investors' information needs, Gelb (2000) provides evidence that firms with a lower number of managers in the ownership structure tend to offer a more extensive disclosures in their Annual Reports. Bushee and Noe (2000) found a positive association between analysts' disclosure ratings and institutional ownership and nature of shareholder rights. Eng and Mak (2003) found that firms with lower managerial ownership and a lower percentage of outside directors have greater voluntary disclosure. According to Gul and Leong (2004), a sample of firms, listed in Hong Kong market presenting CEO

duality, show lower level of voluntary disclosure especially when the proportion of expert outside directors is lower. Ajinkya et al. (2005) found that firms with a higher percentage of outside directors in the board and a greater presence of institutional investors are more likely to issue earnings forecasts with higher frequency. Cheng et al. (2006) found evidence that firms with stronger shareholder rights regimes and higher levels of financial transparency have lower costs of equity capital and higher forecasts accuracy.

Healy and Palepu (2001) make a review of various research streams in voluntary disclosures originate from two different positions focusing on the motivations behind voluntary disclosures. To our purposes, we recall the following: (i) studies where voluntary disclosures help addressing conflicts of interest between managers and shareholders (see below 1-5); or researches consider the economic constraints to voluntary disclosures (see below 6).

(1) capital markets transaction hypothesis: before a debt or equity issue, managers use disclosure to influence investors' perceptions of a firm (*ex multis* Healey and Palepu, 1993, 1995; Myers and Majluf, 1984; Barry and Brown, 1985-1986; Merton 1987; Lang and Lundholm, 1993-1997).

(2) Corporate control contest hypothesis: given the risk of job loss accompanying poor stock and earnings performance, managers use corporate disclosures to reduce the likelihood of undervaluation and to explain away poor earnings performance (Brennan, 1999).

(3) Stock compensation hypothesis: firms that use stock compensation extensively are likely to provide additional disclosure to reduce the risk of misevaluation or to meet any restrictions with respect to insider trading rules (Noe, 1999; Aboody and Kasznic, 2000; Miller and Priotroski, 2000).

(4) Litigation cost hypothesis: the threat of shareholder litigation for inadequate or untimely investor disclosure encourage firms to increase voluntary disclosures (Skinner 1994, 1997; Francis et al., 1997; Miller and Priotroski, 2000).

(5) Management talent signalling hypothesis: talented managers have an incentive to make voluntary earnings forecasts to reveal their type (Trueman, 1986).

(6) Proprietary cost hypothesis: the degree of voluntary disclosure depends on concerns that such disclosures can damage an entity's competitive position in the market (Verrecchia, 1983; Darrough and Stoughton, 1990; Wagenhofer, 1990; Feltham and Xie, 1992; Newman and Sansing, 1993; Darrough, 1993; Gigler, 1994; Hayes and Lundholm, 1996; Piotroski, 1999).

Whatever the motives justifying the issuance of voluntary disclosures, forward looking information are an important aspect to look at for at least two main reasons.

First of all, in the existing literature, voluntary disclosure statements are generally assessed not only in terms of 'word counts', but also by means of weights indicating the degree of disclosure quality (Botosan, 1997; Botosan and Plumee, 2002; Bozzolan et al., 2003; Beretta and Bozzolan, 2008), whereas higher weights are generally assigned to forward looking information (as opposed to historical or backward-looking voluntary disclosures). This is because, companies disclosing voluntary forward looking information – especially when they are listed – do so with the aim of adding value to their communication with their stakeholders in order to reduce the degree of information asymmetry between managers and investors and benefit from a lower cost of capital (Lundholm and Van Winkle 2006). Moreover, forward looking voluntary disclosure have a signalling power as they let disclosing entities be potentially perceived by their stakeholders as being confident (with respect to the credibility of voluntary disclosures, and to the risks associated with unfaithful statements in the US, see *ex multis* Johnson et al. 2001) in their capabilities to foresee the future prospects of the business so that they do not mind sharing this information with them.

Secondly, focusing on forward looking disclosures included in the MD&A report is particularly important also when considering the broader field of corporate financial reporting. In fact, although financial statements, depending on the extent to which current measurements are used in corporate accounts, might embed a variable amount of forward-looking information which are built in the figures presented in the statements, forward looking narratives may help 'putting some colour' around these hidden prospective information. On the other hand, financial statements may underestimate some items because accounting standards do not allow for their proper recognition and measurement and therefore, because of this underestimation, financial statements may not ultimately provide relevant prospective information to their stakeholders. In this case, forward looking information and other voluntary disclosures make up for this lack of relevance in the financial statements by providing what is necessary to know in addition to the raw accounting figures (this is particularly true when looking at specific sectors – such as high technology ones – where the value relevance of financial statements, as measured in terms of the explanatory power of book values with respect to market values, is limited because of the absence of proper intangible assets accounting, see *ex multis*

see Amir and Lev 1996). In other words, forward looking information, especially when they are expressed in quantitative terms (Guthrie and Pettie, 2000), may provide important information to understand the context in which current measurements are performed in the mandatory statements and, by this means, assess to what extent past performance may be indicative of future performance (SEC 1989, IASB 2010).

Several Authors have considered under a number of different viewpoints the role of forward looking information in the *economics of disclosures*. Some have focused their efforts on trying assessing the ability of forward looking information to explain future earnings. For example, as reported, Beretta and Bozzolan (2008) consider forward looking information on a sample of Italian firms. They provide evidence that the change in analysts' forecasts on the firms being surveyed is significantly and positively associated with the quality of such information and that, therefore, these disclosures are useful for users of companies' financial reports. Lundholm and Myers (2001) find evidence that a trade-off exist between the informative power of accounting earnings and the volume of voluntary disclosures with respect to market returns of stocks.

Some authors have put efforts in trying identifying the determinants of voluntary forward looking disclosures. For example, Miller and Piotroski (2000) show that firms with stronger and more persistent earnings news are more likely to provide forward-looking disclosures during the turnaround period. They also show that firms operating in high litigation industries, with strong institutional ownership, having greater stock option-based compensation and facing larger non-equity stakeholders are more likely to provide disclosures. Menicucci (2013) considers the association between firms' characteristics and the level of forward-looking information as measured in terms of word count of forward looking statements, in management commentaries of 40 Italian listed companies for fiscal year 2010. This Author considers as explanatory variables for the level of disclosure of the sample, book value on total assets as a proxy of firm size, the return on equity as a measure of profitability and the debt to equity ratio as a measure of the financial leverage of the firm. This study shows a significant negative association between the volume of forward looking information and profitability, while other variables present insignificant correlations.

Also Aljifri and Hussainey (2007) tried to identify the drivers of corporate voluntary forward looking disclosures in the context of the United Arab Emirates by reference to five firm explanatory characteristics, adopting a quantitative

approach based on counting the number of sentences considering forward looking expressions and dividing it by the number of total disclosure sentences. Particularly this study shows that there is a significant positive association between the level of forward looking disclosures and the degree of financial leverage, while there is a negative association with the profitability measure. More recently, a contribution from Li (2010) considering a sample of Chinese listed firms, considers an interesting approach to forward looking voluntary disclosures from both a methodological and an outcome perspective. The author looks at computerised statistical approach which allows for a more powerful data collection than a dictionary approach (Stone 1997). By adopting this methodology, the paper finds that the tone of forward looking statements— whether it is positive or negative – as considered over a thirteen year period through the Bayesian measure utilised is significantly associated with future earnings.

Beattie et al. (2004) found an association between quantity and quality of disclosures and built a valuation framework for voluntary disclosures which includes a measure of the extent to which disclosure are spread among different topics. Beretta and Bozzolan (2008), moving forward from Beattie's framework (2004), build a new system to estimate the qualitative and quantitative characteristics of corporate voluntary disclosures by building up a multidimensional index and applying it to a sample of 85 industrial Italian listed companies over a three-year period.

3.3 Research Question

At this stage of the research, we focused on financial and governance related characteristics of those Italian listed firms which provide (and to the extent they do) forward looking quantitative information. In our opinion, trying to identify financial and governance related determinants – if any – of a comprehensive index of voluntary disclosures (and especially of forward looking information) is necessarily a second step of a broader analysis which relies, in the first place, on a preliminary assessment of the characteristics of firms which generally provide different types of such information with some evidence that the information provided is somehow reliable.

On the contrary, a low level of disclosure (along the three above mentioned dimensions) of such information for the whole population of Italian stock exchange could reduce the importance of any identified association.

Therefore, the scope of this paper can be summarized as a time series investigation of all Italian listed companies (excluding banks, insurance companies and other financial

institutions), to find the financial and governance-related characteristics of those companies which provide quantitative forward looking information (and, on the other hand, of those which do not provide).

For what concerns financial characteristics of firms, we consider three dimensions: (A) income variables, (B) debt related variables and (C) asset variables. For governance related characteristics (D) ownership variables and (E) board of directors variables have been considered.

Stated that, research questions can be summarized as follows

RQ1: are there any correlations between the existence and quality of forward looking disclosures and A, B and/or C factors?

RQ2: are there any correlations between the existence and quality of forward looking disclosures and D and/or E factors?

4 Methodology

4.1 Methods used in previous research

This analysis covers disclosures in the financial statements of a sample of Italian listed firms between 2006 and 2010 following the idea of Evans and Taylor (1982), who recommend in-depth examination of published financial statements to measure the degree of disclosure. This multi-period analysis permits a more comprehensive picture of the implementation process and also the various methods used.

The framework chosen by Woods and Marginson (2004), Linsley, Shrivs and Crumpton (2006), and Woods, Dowd and Humphrey (2009), who used *content analysis* as the main tool of research are also interesting. Reynolds et al. (2008) used a *survey-based analysis*. Other studies utilize quantitative analysis, in particular *cross-sectional models*, in which each type of disclosure index is regressed on proxy-related variables in order to detect the existence of a statistically significant relationship (Poshwale & Courtis, 2005; Mohan, 2006). Researchers have also tried to find all accessible measures of disclosure quality (Healy & Palepu, 2001; Beattie, McInnes & Fearnley, 2001).

This study adopts a content approach similar to both Linsley et al. (2006) and Woods et al. (2009). Linsley et al. (2006) used a sample of nine pairs of UK and Canadian banks, selected according to asset value, to highlight the differences in banking risk disclosure between the two markets and isolate differences that are country-specific.

Woods et al. (2009) used the top 25 banks of the world in terms of market capitalization. Their cross-country investigation, conducted on the Annual Reports of banks in three different time

intervals ("start (2000), mid (2003), end (2006)", p. 11), highlighted "changes in disclosure practices over time" (p. 15); unlike, Linsley et al. (2006) did not investigate on changes over time.

4.2 Methods used in the research

The analysis applied in this paper is different from other content researches because at this stage the paper limits the sample only to firms adopting IAS-IFRS principles in order to observe the quality of disclosure of a group of entities which are homogeneous in terms of the reference disclosures framework and to find out whether "discretionary responses" to the requirement to disclose forward looking information in the MD&A report are correlated with economical and governance related elements.

Annual reports from the five-year period (2006-2010) of a sample of 218 Italian listed firms have been considered to investigate the nature and characteristics of "Forward-Looking" disclosures in the Italian market. The period selected has been chosen in order to comprehend some years before financial crisis in 2008 and some years after.

4.3 Data set

Data have been collected from Annual Report of each company, once the firms of the sample released the financial document. So that, most accounting data are related to December 31 of each year observed (2006-2010), while the few remaining are related to September 30 or June 30 (according to the different publication date of annual reports).

4.4 Sample

The final sample is made up of 218 Italian industrial companies all listed as of 2011, December 31, regarding their reporting data since 2006 to 2010. The total observation figure is 933. As we are working with an unbalanced sample, some data are incomplete or missing. Some of the firms, in fact, have not always been listed in the period 2006 – 2010; therefore, they have been included in the sample since their listing date. Even if for those companies data are incomplete, we believe that their reporting can still be of help in order to highlight on the practices adopted in disclosing "forward looking" information before the adoption of the IASB "Management Commentary". Entities belonging to the financial sectors, such as banks and insurance companies, pure holding companies and all companies which as of year-end 2011 (December, 31) are no longer listed have been excluded from the investigation.

The list of surveyed companies can be observed in Table A.1. The investigation conducted provides test related to a first step of the analysis on the disclosure content adopted by the sample observed in order to understand the "forward looking ability" of the firms to achieve the "performance goals" in the future.

In this research we firstly tested the existence of some correlation between financial and institutional (i.e. governance) elements and five forward looking disclosure attitude indexes.

The first index has been expressed as a dummy variable which considers the existence of any quantitative forward looking information disclosure regardless of their nature: if there is at least one of the following: income, debt or asset related information the index has a value equal to 1, otherwise 0.

The next three indexes investigate the existence of a specific type of forward looking information (income, debt or asset related as mentioned above).

The last index investigates the quality of forward looking information, in terms of reliability of the information provided. The detailed description of these indexes is provided here below.

4.5 Variable description

Forward Looking, dummy variable: the existence of any quantitative forward looking information per year, whatever the information type is. In Table A.2 some descriptive elements concerning yearly distribution of outlooks are shown.

P: the sum of yearly forward looking information concerning asset elements (R&D, Investments, and so on)

R: the sum of yearly forward looking information concerning income elements and configuration of income (such as sales, revenues, EBITDA, EBIT, net profits, and so on)

F: the sum of yearly forward looking information concerning financial structure related elements (Net Financial Position, Debt, and so on)

OUT_REL (Outlooks Reliability): the reliability of outlooks is calculated in terms of their potential to effectively predict actual results in the next fiscal year.

The index is calculated as the sum of following factors:

- 1 if the outlook fits actual results;
- 0.8 if outlook is worse than the actual results;
- 0.6 if the outlook is better than the actual results, but the latter is above 70% of the former;
- 0.4 if the outlook is better than the actual results, but the latter is between 30% and 70% of the former;

- 0.2 if the outlook is better than the actual results, but the latter is lower than 30% of the former;

- 0 if there is no outlook information.

In any case, if a firm provides more than one outlook information in the same year, the index is the weighted average of the numbered indexes. In Table A.3 some descriptive statistics concerning the yearly distribution of outlook reliability (expressed in terms of a triple qualitative option, "fit", "worse", "better") is shown.

IND, dummy variable: 1 if firm does belong to Industrial industries, 0 otherwise;

CONS, dummy variable: 1 if firm does belong to Commercial Goods industries, 0 otherwise;

SERV, dummy variable: 1 if firm does belong to Service industries, 0 otherwise;

ICT, dummy variable: 1 if firm does belong to ICT industries, 0 otherwise;

GOV, dummy variable: 1 if firm does belong to public sector, 0 otherwise;

Size: natural logarithm of Total Assets;

Rec&Inv: as a risky indicator, calculated as the sum of receivables and inventories, divided by total assets;

EBITDA/S: a profitability indicator, calculated comparing EBITDA, as a proxy of the cash generating attitude of the firm, and sales;

ROA: a profitability indicator, calculated comparing Ebit and total assets;

NFP/E: a leverage indicator, calculated comparing Net Financial Position and Shareholder Equity;

Foreign Funds, dummy variable: 1 in case of foreign funds have equity stakes of firm's, 0 otherwise;

Foreign Funds (%): calculated as a percentage of equity owned by foreign funds;

OD%: calculated as a percentage of outside directors in the Board.

5 Results

5.1 Descriptive Statistics and Pearson Statistics on Test Correlation

Table 1 shows main descriptive statistics (mean, median, minimum, maximum and first and third quartiles) of the untransformed variables used in the analysis.

Table 1. Descriptive Statistics

Variable	Mean	Minimum	Q1	Median	Q3	Maximum
Forward Looking (Y/N)	0,1318	0	0	0	0	1
P	0,0418	0	0	0	0	2
R	0,211	0	0	0	0	4
F	0,0268	0	0	0	0	2
OUT_REL	0,09297	0	0	0	0	1
IND	0,3012	0	0	1	0	1
CONS	0,2294	0	0	0	0	1
SERV	0,3387	0	0	1	0	1
ICT	0,1308	0	0	0	0	1
GOV Y/N	0,07931	0	0	0	0	1
SIZE	13,136	7,292	11,946	12,796	14,25	18,94
REC&INV	0,4095	0,02857	0,25717	0,39668	0,53862	4,96136
EBITDA/S	0,0641	-50,3273	0,0611	0,1143	0,1921	4,3535
ROA	0,03642	-0,5871	0,00224	0,04326	0,07801	0,85805
NFP/E	1,876	-45,17	0,06	0,462	0,929	761,036
FOR_FUNDS Y/N	0,5981	0	0	1	1	1
FOR_FUNDS %	0,08912	0	0	0,0283	0,1004	0,95
OD%	0,37447	0	0,25835	0,3333	0,45825	0,9

Table 2 presents Pearson correlations between the transformed variables. P-values associated to statistics are shown in Italics.

Pearson test correlation provides evidences to support several theoretical evidence from previous literature.

Table 2. Pearson correlation among the variables

	Forward Looking Y/N	P	R	F	OUT_REL	IND	CONS	SERV	ICT	Gov Y/N	LN TA	REC& INV	EBITDA /S	ROA	NFP /E	Out Funds Y/N	Out Funds	
P	0.522 0.000																	
R	0.837 0.000	0.304 0.000																
F	0.395 0.000	0.358 0.000	0.406 0.000															
OUT_REL	0.958 0.000	0.516 0.000	0.806 0.000	0.381 0.000														
IND	-0.076 0.020	-0.122 0.000	-0.044 0.175	0.006 0.847	-0.067 0.039													
CONS	0.059 0.073	-0.012 0.720	0.058 0.075	0.048 0.145	0.046 0.156	-0.358 0.000												
SERV	0.036 0.275	0.086 0.009	-0.013 0.691	-0.084 0.010	0.041 0.216	-0.047 0.000	-0.390 0.000											
ICT	-0.020 0.550	0.060 0.065	0.006 0.853	0.050 0.128	-0.023 0.482	-0.255 0.000	-0.212 0.000	-0.278 0.000										
Gov Y/N	0.085 0.009	0.172 0.000	0.045 0.168	0.069 0.036	0.099 0.002	-0.020 0.546	-0.113 0.001	0.201 0.000	-0.114 0.000									
LN TA	0.199 0.000	0.236 0.000	0.201 0.000	0.246 0.000	0.220 0.000	-0.020 0.537	-0.077 0.019	0.210 0.000	-0.171 0.000	0.255 0.000								
REC&INV	0.000 0.996	-0.091 0.005	0.025 0.443	0.005 0.868	-0.004 0.895	0.057 0.082	0.142 0.000	-0.206 0.000	0.033 0.311	-0.145 0.000	-0.301 0.000							
EBITDA/S	-0.074 0.024	0.018 0.580	-0.034 0.305	0.008 0.802	-0.056 0.087	0.031 0.344	0.011 0.749	-0.051 0.122	0.016 0.631	0.025 0.442	0.103 0.002	0.006 0.856						
ROA	0.061 0.064	0.022 0.495	0.072 0.027	0.002 0.962	0.086 0.009	0.116 0.000	0.033 0.311	-0.096 0.003	-0.065 0.047	0.057 0.083	0.178 0.000	0.040 0.217	0.156 0.000					
NFP/E	-0.016 0.616	-0.009 0.791	-0.014 0.662	-0.006 0.856	-0.017 0.604	-0.035 0.292	-0.017 0.595	0.054 0.100	-0.007 0.832	-0.017 0.612	-0.048 0.142	0.005 0.867	0.005 0.881	-0.015 0.655				
Foreign Fun	0.067 0.039	0.039 0.233	0.092 0.005	0.101 0.002	0.070 0.033	0.014 0.669	0.016 0.633	-0.088 0.007	0.085 0.010	-0.083 0.011	0.241 0.000	-0.020 0.534	0.047 0.151	0.178 0.000	-0.042 0.205			
Foreign Fun	-0.061 0.062	-0.045 0.166	-0.036 0.273	-0.011 0.735	-0.058 0.079	0.032 0.331	-0.067 0.042	-0.031 0.345	0.083 0.011	-0.120 0.000	0.060 0.066	-0.053 0.103	0.019 0.554	0.070 0.033	-0.018 0.581	0.471 0.000		
OD%	0.094 0.004	0.089 0.006	0.086 0.009	0.061 0.064	0.096 0.003	-0.150 0.000	0.033 0.311	0.137 0.000	-0.029 0.379	0.344 0.000	0.266 0.000	-0.106 0.001	0.089 0.006	0.048 0.143	-0.009 0.778	0.052 0.115	-0.004 0.914	

As Table 2 shows very clearly, many are the correlations between different variables. We decided to highlight columns regarding elements of interest, in fact only the first five columns, named Forward Looking, P, R, F and OUT_REL are of our main stake for this analysis.

First of all, we have to underline that for what concerns the sector columns any of the observed variables presents some positive and/or negative correlation. The descriptive relevance of these issues make us avoid any comment, but few words may be useful to highlight that ICT sector seems to be no correlated with any of outlook-related variables. So, we can conclude by saying that except this latter sector, the industry membership presents quite different correlations with the forward looking disclosures attitude.

Forward Looking: this dummy variable is positively correlated with the public sector ownership (and this broadly consistent with the hypotheses of Eng and Mak, 2003), the size of companies (Cerf, 1961; Cooke, 1991), the presence of Foreign Funds among the owners (not with the higher percentage of those) and with the percentage of outside directors in the Board (Eng and Mak, 2003). These links seem to be also strongly consistent with several theoretical hypotheses: when governance is built consistently with best practices, or is impacted by the presence of foreign professionally structured investors and/or public sector empowered probably you can find a wider voluntary disclosure, especially about forward looking elements.

P: this variable is positively correlated to the existence of public sector inside the ownership, to the firm size and to the growing presence of outside directors, while it is negatively correlated to the Rec&Inv variable (proxy for a degree of riskiness of financial statement) (consistently with Ferguson et al., 2002 which consider a similar risk indicator, i.e. liquidity ratios)). For former correlations we already argued while commenting Forward Looking results previously. For the latter, otherwise, we note that when current assets are proportionally higher among other total assets, firms do not favorably disclose asset-related forward looking information. On one hand, this is consistent with the general caution principle that traditionally Italian annual report preparers comply with, on the other hand this element shows a particular element of weakness: as current assets are higher, asset related information should be more crucial, so that forward looking ones have to be possibly disclosed.

R: this variable is positively correlated to firm size, the existence of Foreign Funds among the owners (Naser et al., 2002) and the percentage of outside directors in Board of Directors. Moreover, an interesting element is useful to be noted: the positive correlation between R-index and Return on Assets. This seems to be particularly meaningful: the greater the operating profitability of the company, the higher

its willingness to disclose income-related forward looking information (in contrast to Aljifri & Hussainey, 2007).

F: this variable is positively correlated to the public-sector ownership, the presence of foreign funds among shareholders, and the wider presence of outside directors in the Board; moreover, F-index is negatively correlated to SERV sector.

OUT_REL: this variable (discrete, not dummy) is positively correlated with several governance-related elements: the public sector ownership, the existence of foreign funds among qualified shareholders and the greater presence of outside directors; it's also positively correlated to firm size as well to return on assets. The correlation between firms profitability and their ability to fit previous forward looking targets seems to be coherent with the management general ability to achieve objectives and to predict future evolutions, both market evolution and firm's results evolution.

6 Conclusions, implications and further research

We note that only 132 firms have disclosed forward looking information in five surveyed years. Those disclosing furthermore provide only few forward looking elements, and they often do not disclose again in following years the same information previously disclosed. This result underlines that listed firms in the Italian Stock Exchange tend to provide only limited volume of information about future in terms of forecast and performance expected. It seems that MD&A Report of Italian listed firms is still not completely addressed to disclose useful information for external investors. It still suffers of opacity, since firms probably prefer to hide any specific data on range of profit and cash flow expected.

As the Tables provided clearly show, there are several positive correlations between Forward looking related variables and other debt related, asset related, profit and loss related and governance variables.

We believe that the most useful information concern the positive correlations of several of Forward looking related variables and corporate governance related factors, such as Government ownership, outside directors percentage and foreign funds presence among shareholders. These correlations seem to provide a still incomplete, but clear picture of the necessary road map to increase and strengthen voluntary disclosures (both for what concerns non mandatory information, and the discretionary content of information compulsorily required by laws or self-regulation codes).

Further research can analyze if this increasing path has progressed, and if there are reasonable effects over economic fundamentals, or a reduction in the volatility of stock prices and returns and level of exchanged volumes.

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Appendix A

Table A.1. List of surveyed Companies

A2A	BRIOSCHI	ENERVIT	INTERPUMP GROUP	PIQUADRO	STEFANEL
ACEA	BULGARI	ENGINEERING	IRCE	PIRELLI & COMPANY	TAS
ACE GAS- APS	BUONGIORNO	ENI	IREN	POLIGRAFICA SAN FAUSTINO	TELECOM ITALIA
ACOTEL GROUP	BUZZI UNICEM	ERG	ISAGRO	POLIGRAFICI EDITORIALE	TELECOM ITALIA MEDIA
ACQUE POTABILI	CAD IT	ERG RENEW	ITWAY	POLTRONA FRAU	TERNA
ACSM- AGAM	CAIRO COMMUNICATION	ERGYCAPITAL	ITALCEMENTI	PRAMAC	TERNIENERGIA
AEDES	CALEFFI	ESPRINET	JUNVENTUS FOOTBALL CLUB	PRELIOS	TESMEC
AEFFE	CALTAGIRONE EDITORE	EUROTECH	K.R. ENERGY	PREMUDA	TISCALI
AEROPORTO DI FIRENZE	CAMPARI	EUTELIA	KERSELF	PRIMA INDUSTRIE	TOD'S
AEROPORTO TOSCANO	CARRARO	EXPRIVIA	KINEXIA	PRYSMIAN	TXT
AICON	CASA DAMIANI	FALK RENEWABLES	KME GROUP	RATTI	UNI LAND
ALERION CLEAN POWER	CDC POINT	FASTWEB	LA DORIA	RCF GROUP	VALSOIA
AMPLIFON	CEMBRE	FIAT	LANDI RENZO	RCS MEDIA GROUP	VIANINI INDUSTRIA
ANSALDO STS	CEMENTIR HOLDING	FIDIA	LAZIO S.S.	RDB	VIANINI LAVORI
ANTICHI PELLETTIERI	CENTRALE DEL LATTE DI TORINO	FIERA MILANO	LE BUONE SOCIETA'	RECORDATI	YOOX
ARENA	CHL	FINARTE CASA D'ASTE	LOTTOMATICA	RENO DE MEDICI	YORKVILLE BHN
ARKIMEDICA	CIA	FINMECCANICA	LUXOTTICA	REPLY	ZIGNAGO VETRO
ASCOPIAVE	CICCOLELLA	FNM	MAIRE TECNIMONT	RETELIT	ZUCCHI
ASTALDI	CIR	FULLSIX	MARCOLIN	RICHARD GINORI 1735	
ATLANTIA	CLASS EDITORI	GABETTI PROPERTY SOLUTIONS	MARIELLA BURANI	RISANAMENTO	
AUTOGRILL	COBRA	GAS PLUS	MARR	ROMA	
AUTOSTRADA TO-MI	COFIDE	GEFRAN	MEDIACONTECH	ROSSS	
AUTOSTRADE MERIDIONALI	COGEME SET	GEOX	MEDIASET	SABAF	
B&C SPEAKERS	CRESPI	GEWISS	MERIDIANA FLY	SADI SERVIZI INDUSTRIALI	
BASICNET	CSP INTERNATIONAL	GRANITIFIANDRE	MOLECULAR MEDICINE	SAES GETTERS	
BASTOGGI-IRBS	DADA	GREEN VISION AMBIENTE	MONDADORI EDITORI	SAFILO GROUP	
BEE TEAM	DANIELI & C.	GRUPPO CERAMICHE RICCHETTI	MONDO HE	SAIPEM	
BEGHELLI	DATALOGIC	GRUPPO COIN	MONDO TV	SARAS	
BENETTON GROUP	DE LONGHI	GRUPPO EDITORIALE L'ESPRESSO	MONRIF	SAVE	
BENI STABILI	DIASORIN	GRUPPO MINERALI MAFFEI	MONTEFIBRE	SCREEN SERVICE	
BEST UNION COMPANY	DIGITAL BROS	HERA	MONTI ASCENSORI	SEAT PAGINE GIALLE	
BIALETTI INDUSTRIE	DMAIL GROUP	I GRANDI VIAGGI	NICE	SERVIZI ITALIA	
BIANCAMANO	DMT	I VIAGGI DEL VENTAGLIO	NOEMALIFE	SETECO INTERNATIONAL	
BIESSE	EDISON	IGD	NOVA RE	SIAS	
BIOERA	EEMS	IL SOLE 24 ORE	OLIDATA	SNAI	
BOERO BARTOLOMEO	EL. EN.	IMA	PANARIA GROUP	SNAM RETE GAS	
BOLZONI	ELICA	IMMSI	PARMALAT	SOCOTHERM	
BONIFICHE FERRARESI	EMAK	IMPREGILO	PIAGGIO & C.	SOGEFI	
BORGOSIESIA	ENEL	INDESIT COMPANY	PIERREL	SOL	
BREMBO	ENEL GREEN POWER	INDUSTRIA E INNOVAZIONE	PININFARINA	SORIN	

Table A.2. Yearly distribution of Outlooks

	<i>Elements</i>	<i>Firms</i>	<i>Outlooks per firm</i>
2006	49	21	2,333333333
2007	61	27	2,259259259
2008	60	32	1,875
2009	50	26	1,923076923
2010	54	26	2,076923077
	274	132	

Table A.3. Yearly distribution of Outlook Reliability

	<i>Fit</i>	<i>Worse</i>	<i>Better</i>
2006	11	20	18
2007	14	27	20
2008	7	31	22
2009	4	16	30
2010	9	23	22
	45	117	112