

Impact of Corporate Governance on Voluntary Disclosures of Strategic and Forward-Looking Information

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Abstract

The forward-looking information in annual reports may increase shareholder trust in the company's future plans, whereas a lack of such disclosures may prevent potential investors from making informative investment decisions. Meanwhile corporate governance mechanism has been recognized as an important method of bringing the interests of shareholders and play a significant role towards improvement in the level of voluntary disclosure. However, studies that specifically focus on the consideration of corporate governance mechanisms and how they relate to strategic and forward-looking information in annual reports are limited. Therefore, the purpose of this study is to explore the impact of corporate governance on voluntary disclosures of strategic and forward-looking information with special reference to the listed manufacturing companies in the Colombo Stock Exchange (CSE) in Sri Lanka. Size of audit committee, board size, chief executive officer (CEO) duality, and independent directors are the independent variables used in the study. The dependent variables of the study are the level of voluntary disclosures of strategic information and forward-looking information, which was measured using the disclosure index consist of 28 strategic information and 11 forward-looking information. The sample consists of 18 listed manufacturing companies out of 39 listed on the CSE in Sri Lanka from 2015 to 2019 and was drawn using a convenience sampling method. The investigation of the study is performed using descriptive statistics, correlation matrix, and the panel regression analysis. The findings of the study show that board size positively and significantly impacts on the voluntary disclosures of strategic and forward-looking information, but there is no any significant impact of size of audit committee, CEO duality, and Independent directors on the voluntary disclosures of strategic and forward-looking. It would send a positive signal that the bigger the size of board, the company has an effective governance mechanism in place to serve as a check and balance, encouraging voluntary disclosure practices. Furthermore, the findings of this paper contribute to the literature on corporate governance, specifically how it affects different types of voluntary disclosure information.

Keywords: Corporate governance, manufacturing companies, strategic and forward-looking information, voluntary disclosures